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The SOUTHERN ECONOMIC JOURNAL

April 1950

THE ECONOMICS OF THE BIBLE[1]

G. H. AULL

Clemson College

The Bible is a world's "best seller." Year after year and century after century the "Word of God" has been printed in greater numbers and read in more languages than any other collection of writings known to man. By comparison, all of the so-called most popular books put together have had a circulation less than sufficient to create even a ripple on the surface of the great stream of Bibles which has poured from the printing presses each year.

The Bible, furthermore, although ancient in its origin, has never failed to keep pace in its popularity with the most modern book of the day. It asks no favors, it caters to no whim, it even invites criticism and abuse; yet the fact remains, it is without question the Book of Books, yesterday, today, and forever.

There must be something real, something definite and tangible, in the teachings of a book which has attracted such a host of readers over such a long period of time, in so many different countries, among so many different kinds of people, and under so many different forms of government.

The Bible is *not* a book of science, not a text in economic theory. Few people, even the most fundamental of the Fundamentalists, will lend support to the idea that the earth is flat notwithstanding the fact that the Bible makes reference to its four corners.[2] To look within its covers for the latest and most authoritative information on geology, biology, astronomy, history, or any other science—physical, natural, economic or social—would be a grave mistake, just neither to the Bible nor to the student.

On the other hand, throughout its 66 books there is much of an economic nature and even the greatest of its spiritual truths are frequently given an economic or material background. This is true whether the reference be to Genesis, where the possession and use of the earth is made man's responsibility; to Leviticus and Deuteronomy, where are set forth the laws and relationships by which the same is to be governed; to Isaiah, where are defined the rights of individuals to the fruits of the land and their obligation to increase them and to share them with others; to the gospels of the New Testament, where Christ himself teaches the sacredness of property, the dignity of labor and the obligations of citizenship; or to the Book of Revelations in which is unveiled the New City which John saw in a vision.

[1] Presidential address delivered at the Nineteenth Annual Meeting of the Southern Economic Association, Knoxville, Tennessee, November 18, 1949.

[2] Revelations 20:8.

Let it be understood at the outset that your President is under no delusion as to the risks that are involved in the treatment of a subject such as that which he has chosen for this evening. On the one hand, his exposition of Biblical economics will most certainly bring down upon his head the criticism of the orthodox (?) economist who recognizes nothing ethical in economic theory, and on the other, his interpretation of practical Christianity will hardly satisfy the demands of the pious (?) preacher who conceives of Life as a "veil of tears" with its only satisfactions coming after death. I am not particularly concerned about criticism, but in fairness to all it should be said that I find some passages in the Bible with economic implications which are at variance with my current economic philosophy; I find other passages with religious significance which I am unable to reconcile with my present conceptions of right and wrong. Furthermore, much of what we know as economics is technical and impersonal and has no more moral or spiritual significance than a slide rule or a mathematical equation. "But," as the British economist, Sir Josiah Stamp, has said, "the ethical problem lies immediately alongside—and no economic answer can be translated into practical conduct without the addition of this element."[3]

My selection of this topic may not illustrate a situation in which "fools rush in where angels fear to tread," but the illustration is obviously appropriate when applied to economists and preachers, both of whom are apparently without fear or inhibition when it comes to treading upon the territory of the other. The early Priest, of course, was both a spiritual and a temporal leader. As such he was under compulsion to lay down and interpret the civil as well as the moral code and it did no great harm if, perhaps on occasion, the Sons of Abraham were unable to distinguish the one from the other. The modern minister, however, has no such mandate and—unless well-grounded in both political and economic science—would do well to turn his persuasive powers upon the person of the economist and the statesman rather than upon the particular political party or economic order through which they operate.

Many a man has destroyed his influence as a Christian minister by "meddling" in highly technical, non-theological matters about which he knew practically nothing. At the same time, those noble souls who have been called to preach "salvation to the sinner" have a right to expect that politicians and pseudo-economists with axes to grind will refrain from claiming an alliance with God for the purpose of wooing innocent and unsuspecting citizens into all sorts of impossible and unrealistic schemes. For example, in spite of claims and counterclaims it is difficult to believe that when Jesus said "I am the Way"[4] he had any idea of lending encouragement to a particular political party or economic system—past, present, or future. It is equally unlikely that Jesus was in favor of slothfulness although he advised his followers to "take no thought for the morrow"[5] and certainly one has to stretch a point to convert these words into arguments for poor relief and price supports, however meri-

[3] Sir Josiah Stamp, *Christianity and Economics*, p. 164.

[4] John 14:6.

[5] Matthew 6:34.

torious these schemes might be. It seems more likely that Biblical economics is favorable to the viewpoint of the old Negro who, when his parson had bragged about how the Lord had blessed him with a garden of such large quantity and fine quality vegetables, replied: "You ought to have seen this place when the Lord had it by himself."

In discussing some "Economics of the Bible" my desire is to appeal to the head rather than the heart. Economics is the science of wealth; the Bible is the Book of Life. The immediate objective of bringing the two together is to examine certain Biblical injunctions having economic implications with a view of determining their soundness in the light of current economic information and belief. In doing this we shall not attempt to fit the teachings of the Bible piecemeal into a hard and fast economic order, but rather to *challenge* the existing order on the basis of religious principles laid down centuries ago.

A number of different approaches to the problem have been suggested. The most common, and certainly the most fascinating, is to quote various Old Testament prophesies along with the comment "I told you so." "Hear this, O ye that swallow up the needy, even to make the poor of the land to fail"—the quotation is from Amos and not (as one might suppose) from Ickes. "When," they ask, "will the new moon be gone that we may sell corn? and the Sabbath that we may set forth wheat, making the ephah (measure) small and the shekal (price) great, and falsifying the balance by deceit? That we may buy the poor for silver and the needy for a pair of shoes; yea, and sell the refuse of the wheat?"

"The Lord hath sworn," saith Amos, "Surely I will never forget any of their works. Shall not the land tremble for this and every one mourn that dwelleth therein?"[6]

In the light of recent economic history and with due allowance for bias on both the religious and the economic front, one is forced to the conclusion that old Amos, who insisted that he was "neither a prophet nor the son of a prophet" has pretty aptly described and diagnosed a widespread and current economic problem. Surely the land doth "tremble" and they that dwell therein do "mourn." But why? Apart from anything ethical or religious, is there an *economic basis* for the idea that a high price, a small measure, a shoddy product, and a deceitful balance will inevitably lead to ruin? The question answers itself. Economic well-being is conditioned upon a wide distribution of goods and services—certainly upon a distribution proportionate to the contribution of each separate "factor" to the net product. To compel a price which is higher than necessary to put the production of industry into and through the channels of trade is economically unsound, and to couple this practice with the use of an undersized measure, a deceiving balance, and a false label is not only poor Christianity but bad business.

The methods of acquiring and exchanging property have always been of concern to Christians insofar as they involve any operation through which one man might get the better of another. According to one authority[7] "it was the universal opinion in the church that in buying and selling a man should ask and give

[6] Amos 8:4–8.

[7] L. T. Hobhouse, "Christianity," *Encyclopedia of the Social Sciences*, Vol. III, p. 457.

the just price." The modern economist finds little to criticize in this aspect of Bible economics but in modern complex society the determination of a "just price" is a far more intricate problem than that faced by the merchants who plied their trade in the days of Abraham, Isaac, and Jacob—or even in the time of Christ. In those days the "just price" was the customary price and if a seller got more it could only be either by deceiving the purchaser or by taking advantage of some special necessity. This, of course, was nothing more nor less than a piece of individual wrong-doing which most modern economists would frown upon. It is equally objectionable, however, from the standpoint of both economics and ethics, when carried out on a national or international scale.

Probably no organization in recent economic history was more generally associated with "swallowing up the needy" and "making the poor of the land to fail" than the commercial and investment banks just before and after the turn of the century. Yet it was said recently that "the obligation to develop public confidence and financial stability" common to these institutions, "represents values formerly associated only with artistic achievements, political stability, and spiritual immortality . . . The *caveat emptor* rule, seriously questioned in the field of marketing, is even less defensible in the field of investment where exploitation may lead to excessive and ruinous appropriation of the savings of many people and the wrecking of their faith in the business structure".[8] Thus it is thata merger is effected between Business ethics and Bible economics—with the suggestion to merge coming from business and for business reasons!

Other prophets, too, spoke out against some of the same kind of practices now condemned by the Better Business Bureaus, the Chambers of Commerce, and the Local Housing Authorities. Listen, for example, to Isaiah as he cries: "Woe unto them that join house to house, that lay field to field, till there be no place, that they may be placed alone in the midst of the earth! . . . Of a truth, many houses shall be desolate, even great and fair, without inhabitant."[9]

Sometimes I think students of the Bible are inclined to view Old Testament prophesy too much in terms of something which is *foretold* and not enough in terms of something which, in light of known conditions, could *hardly be avoided*. One need not question the authority of Isaiah to speak for "The Lord of Hosts," but any second-rate economist knows that joining "house to house" and laying "field to field" are both manifestations of an unwise concentration of wealth and are commonly associated with the evils prophesied by Isaiah.

The Bible reports what was perhaps the first attempt at an "ever-normal granary,"[10] the first national land use program,[11] the first Sunday "Blue Laws,"[12] the first large scale public works project,[13] and the first truly burdensome national

[8] C. F. Teuch, "Business Ethics," *Encyclopedia of the Social Sciences*, Vol. III, p. 112.
[9] Isaiah 5:8–9.
[10] Genesis 41:47–57.
[11] Leviticus 25:2–34.
[12] Exodus 20:8–10.
[13] I Kings 6:1–7:51.

debt.[14] Elsewhere one of the prophets complains of the depreciation of currency and compares its effects to putting wages "into a bag with holes."[15]

However fruitful may be a further examination of Old Testament literature for illustrations of currently acceptable economic doctrine, it is in the New Testament that we find the greatest number and variety of economic truths, or at any rate, of truths which seemingly have an economic basis. It has been pointed out by Sir Josiah Stamp[16] that "overpopulation and overtaxation are the two basic economic facts behind the Gospels." It is not so evident, however, that the economic philosophy of Christ was unduly influenced by these facts. In any event, much of what He said which is of economic significance appears to have widespread application.

Kagawa the great Japanese Christian says that there are certain "elements of value which run through all types of economics" and that "Christ himself has given us the foundation for these elements."[17]

Economic activity has no purpose except in the satisfaction of human wants but not all human wants are economic in character. Since, however, they are "human" and co-exist within the same being, it is illogical to contend that they are unrelated. It is even more illogical to believe that they are antagonistic. (The lungs do not make war upon the liver.) Jesus said: "What shall it profit a man if he gain the whole world and lose his own soul?"[18] Did he imply by that statement that the now familiar "economic man" has been endowed with a soul, or must we assume that he had reference to *another* man in whom economic and spiritual functions are separately performed?

While many preachers and some economists cling to the idea that religion and economics must remain entirely separate, there are literally thousands of hard-headed business men who bear personal testimony to the fact that "man does not live by bread alone"[19] and that to "gain the whole world" while losing one's soul is both spiritually and economically unsound. Even forgetting the spiritual side, one need not look far, either in time or space to find ample proof of the fact that entrenched wealth and greed have been time and time again forced into a "generous" mood, not because "the Lord loveth a cheerful giver,"[20] not because of fear for the soul,[21] but because their very selfishness threatened wholly to destroy the things they coveted. Many also, losing both wealth and soul, have made pitiable and tragic figures on the economic landscape and added thousands to the list of suicides. There is ample evidence to indicate that the economic law of diminishing returns becomes operative against the man who fails to "beware of covetousness"[22] and that "the

[14] I Kings 12:4.
[15] Haggai 1:6.
[16] *Op. cit.* p. 12.
[17] Toyohiko Kagawa, *Brotherhood Economics*, p. 26.
[18] Luke 9:25.
[19] Deuteronomy 8:3.
[20] II Corinthians 9:7.
[21] Luke 9:25.
[22] Luke 12:15.

abundance of things which he possesseth"[23] is no more a measure of his economic than of his spiritual life.

Jesus condemned "the rich fool" not because he was *rich* but because he was so *naive* as to believe that his great wealth involved no social and economic responsibilities.[24] A paganistic, selfish world would undoubtedly destroy itself and the breakdown of voluntary ethical impulses and restraints has made necessary a variety of economic and social legislation. "The mere manipulation of a flow of wealth made by others—getting ingeniously in the way of its passage from production to consumption, without any effective contribution in return—stands condemned on economic and ethical grounds alike."[25] Governments everywhere have found it necessary as a coldly practical matter to guard against these abuses and to offset their effects upon large elements in the population. There may be some question as to whether we have gone too far but there is no large scale convincing evidence that a reduction in social legislation would be followed by an increase in Christian service, even though such a course might be indicated by sound economic principles.

It must not be inferred, however, that the economics of the Bible is favorable to any particular economic group. True, the rich fool was 'not rich toward God"[26] but this weakness is by no means peculiar to the wealthy. The Bible sets forth the rule that "the laborer is worthy of his hire"[27] and admonishes all to "render to every man according to his works."[28] The application of these principles is truly in accord with sound economic practices but nowhere do I find that Bible economics requires idleness to be rewarded or wages to be paid which are disproportionate to the quantity and quality of work which is done. The Bible goes further and says that "if any man provide not for his own" (that is, refuses to perform his economic function) . . . "he hath denied the faith and is worse than an infidel."[29] The Bible is very specific in associating economics with religion. Will economists deny that religion has no place in economics?

In the mind of Christ a good Christian must also be a good citizen. Duly constituted and orderly government is an economic as well as a political necessity. Government (authority) is essential to the institution of private property and private property is the most fundamental fact in current economic society. Government, however, is conditioned not only upon the *will* of the people but upon the *support* of the people both financial and otherwise. This fact is of such outstanding importance that the spiritual Savior of the World did not hesitate to include the injunction "render unto Caesar" (the things that are Caesar's) in the same sentence with that which also enjoins His followers to "render unto God" (the things that are God's).[30] Consider, for a moment, the *economic* values contributed to every community not only by rendering unto

[23] Ibid.
[24] Luke 12:21.
[25] Stamp, *op. cit.* p. 147.
[26] Luke 12:21.
[27] Luke 10:7.
[28] Proverbs 24:12.
[29] I Timothy 5:8.
[30] Matthew 22:21.

God through the erection and maintenance of good churches and otherwise but by rendering unto Caesar (and let us hope, unto God,) by the construction and support of good schools, roads, etc.

If this were a discussion of religious ideals and beliefs, one might dwell upon the thought that some of the present-day difficulties are attributable to the fact that men have failed in their obligation to God. But this is not such a discussion, and so the question is: "How many of the world's economic ills are due to the fact that so-called Christian citizens have defaulted on their economic and political responsibilities by failure to exercise their rights at the ballot box, by not speaking out boldly against dishonesty and corruption in government, by *not* giving of their services to the needs of Caesar, and even by contriving to avoid their just share in the costs of Government?"

Although the record does not show that Jesus said so, the assumption is that he who renders unto God the things that are God's will likewise render unto Caesar the things that are Caesar's—and this sometimes means turning the rascals out. The conclusion is that the admonition to render unto Caesar the things that are Caesar's and unto God the things that are God's is sound both in economics and in religion.

Probably no phase of Bible economics has given rise to more controversy than that centering around the question of whether the Golden Rule will work in business. "All things, therefore, whatsoever ye would that men should do unto you, even so do ye unto them for this is the law and the prophets."[31] Do we find in this magnificient maxim not only the essentials of a great religious principle but the elements of a sound economic policy?

It has been said that on "Devil's Island," which for many years served as a prison for the worst of French criminals, the situation became so bad that the prisoners themselves were moved to adopt certain standards of conduct very much on the order of the Golden Rule. The reason is not difficult to understand. There is even among those who boast they they are "without the law" a secret hope that they themselves may be permitted to live "under the law." In a world of murderers, survival itself depends upon treating others, not as a murderer would treat them, but as he would that they treat him. While one might question the ethics of being unselfish for selfish purposes, there are instances of the practice having been employed with outstanding success in the fields of economics, sociology and politics. Thus it is that the Golden Rule has long since been an integral part of the stock in trade of many business enterprises not only because it is "the law and the prophets" but because it pays dividends and increases the value of stock. There are, of course, other equally noteworthy examples of business men whose adherence to the Golden Rule is based upon anything but selfishness. Those who have tested it most thoroughly seem to have discovered rewards which cannot be measured in economic terms and doubtless would be willing to pay heavily for the privilege of doing unto others as they would that others do unto them.

It was a great moment in the long history of conquest, rapine, and oppression when David Hume could say (1742) at the conclusion of his essay "Of the Jeal-

[31] Matthew 7:12.

ousy of Trade": "I shall therefore venture to acknowledge that, not only as a man but as a British subject, I pray for the flourishing commerce of Germany, Spain, Italy, and even France itself. I am at least certain that Great Britain and all those nations would flourish more did their sovereigns and ministers adopt such enlarged and benevolent sympathies toward each other."[32]

"It had not occurred to many men before," observes Walter Lippman, "that the Golden Rule was economically sound." "For the first time," he says, "men could conceive of a social order in which the ancient moral aspiration for liberty, equality and fraternity was consistent with the abolition of poverty and the increase of wealth. . . . At long last the ancient schism between the world and the spirit, between self-interest and disinterestedness, was potentially closed, and a wholly new orientation of the human race became theoretically conceivable, and in fact necessary."[33]

In "The Sermon on the Mount" Jesus is rather specific in his views concerning spiritual and material relationships. After urging his followers that they "be not anxious" as to their material well-being he bluntly advises: "But seek ye first the Kingdom of God and his righteousness and all these things shall be added unto you."[34] After a period of 1900 years, marked by violent fluctuations in the business cycle, men and nations are still asking the question—and as studiously avoiding a full scale test of the answer—"Did Jesus mean what he said or was he merely holding out the bait of economic prosperity in order to lure a material-minded world into the Kingdom of God?" In other words, is seeking the Kingdom of God *first* sound economics as well as good Christianity?

Time does not permit, nor does the subject require, that all the reasons for economic crises be discussed or even enumerated here. It is sufficient to say that many, if not all, of these unfortunate disturbances have had their origin in and flourished mightily upon media concocted by those who seek "other things" first—war, greed, prejudice, ignorance, so-called national pride. Since all of these are foreign to the "Kingdom of God" it follows naturally that seeking the Kingdom *first* will afford an almost certain solution to the problems of the business cycle.

The years immediately following the first Great War witnessed a most ungodly display of national greed and selfishness, and nothing did more to hasten the concentration of wealth, the spread of poverty, the disintegration of society, and the outbreak of World War II than the iniquitous barriers which at that time were placed in the way of a free flow of trade (and good will) between the nations of the earth. The United States must take its place along with other countries which during those years sought (in the words of Jesus) "all these things," *either* without regard to the Kingdom of God or else in the faint hope that it might be acquired later—perhaps by direct purchase. American influence, power, and natural resources have once again placed this country in a

[32] David Hume, "Of the Jealousy of Trade." Quoted from *The Good Society* by Walter Lippman (see below).

[33] Walter Lippman, *The Good Society*, p. 194.

[34] Matthew 6:33.

strategic position to render a real service to the rest of the world. To take advantage of this opportunity, however, it is necessary that we recognize the economic soundness of seeking the Kingdom of God first. There are signs that this is now being done in our commercial relations with other countries and there is no doubt but that if the citizens of this world will seek the Kingdom of God instead of the Domain of Idols the shocks of the recent war will be materially reduced both in duration and intensity, and a way will be found to outlaw such conflicts in the future.

It is a common observation that many men fail financially by going into something too heavily. A man who finds a nice profit in a herd of 50 cows will almost certainly seek to enlarge his land holdings and try his luck with a hundred more, thus pushing up the price of land and flooding the market with milk. Suppose, instead, he had devoted his surplus time and energy to the elevation of his mind and the improvement of his home; to cleaning up a slum or building a community center; to the promotion of local understanding and international good will; in general to the task of making this a better and brighter world in which to live. Land values would not then have gotten too far out of line, the milk market would not have been flooded, and the economic stability of the community would not have been disrupted. There is no surplus of the things of the Kingdom—nor can there be! The physical needs of men must likewise be satisfied and it is the duty of all of us to share in the task of doing it, but it is an economic fallacy for a man to produce more material goods than he can afford to distribute or to consume more than he can afford to pay for. Both of these mistakes are common to those who seek "other things" first. However, just as in the case of the Golden Rule, those who seek the "Kingdom of God" *as a means* to acquiring "all these things" will have missed the essential quality in the Christian ethic and may find the search without either economic or spiritual satisfaction.

In conclusion a word of warning may be in order. Religion and science are not interchangeable—one is not a substitute for the other. Each, however, has a contribution to make to "The Good Society" which it cannot do by making light of the other. It is just as unscientific to make a science out of religion as it is unchristian to make a religion out of science. Ethical heat without economic enlightenment serves only to confuse issues which are at best difficult to resolve. A theologian with little knowledge of economics is on shaky ground when he opposes an economic program because he thinks it is contrary to "God's Plan," but not more so than an economist, with no knowledge of theology, when he condemns a religious move because he thinks it is "impractical." Economics is concerned with the satisfaction of human wants, whatever those wants may be. Christianity is concerned with the nature of human wants and can make its influence best felt *not* by changing economic systems but by changing human wants and human motives. Systems can never rise above those who create them and cause them to function. Therefore, even "Bible Economics" will break down unless production and consumption are more and more brought under control of individuals who themselves measure up to the high standards of the Christian Ethic.

A REVIEW OF BUSINESS CYCLE THEORY*

ERNST W. SWANSON

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The thoughts set forth herein are perhaps wrongly labelled. Instead of "A Review of Business Cycle Theory," they would best be entitled "Some Speculations upon Business Cycle Theory." Indeed, they may very much call to mind Lewis Carroll's reflections through Alice upon the far-fetched statements of the White Queen. Alice had demurred: "I ca'n't believe that!" To which the White Queen had said, "Try again; draw a long breath, and shut your eyes."

Whereupon Alice laughed. "There's no use trying," she said: "One ca'n't believe impossible things."

"I daresay you haven't had much practice," answered the Queen. "When I was your age, I always did it for a half-an-hour a day. Why, sometimes I believed as many as six impossible things before breakfast. . . ."

The reader, however, will be less severely tested than was Alice. He is asked to believe only three impossible things and, most likely, after breakfast. These speculations treat in turn, first, the possibility of bringing together relative price theory and full employment theory; second, the nature of the business cycle; and third, the trend in methodology; each, as it appears to the writer to be developing in contemporary theory.

I

It is hardly necessary to remind the reader that classical economics perhaps gave more weight to the economics of growth than it did to the economics of consumption and the firm (the pricing of goods and services to maximize resource use). But by shortly after the middle of the nineteenth century, the Austrians, the Swedes, and the Cambridge group had shifted the emphasis almost exclusively, if not exclusively, to the economics of consumption and the firm, to relative prices. It was not until the virtually simultaneous appearance in the 1930's of the Stockholm school writings (prompted by Wicksell's explorations) and Lord Keynes' *General Theory*, that the economics of growth was again given status.

For the past decade and a half, the emphasis has been almost entirely on what has become known as Keynesian economics with its explorations into economic growth and into the forces which make for full-employment use of resources. This emphasis has been so pronounced that some students of economic thought have been concerned that relative price theory is being discarded—a major tragedy, were it to occur.

Even some of Keynesian leaning have been persuaded that truth is to be served not by sublimation of relative price theory, but by a juncture of the two areas

* The writer wishes to express his gratitude to his colleague, Tate Whitman. He has read this paper in its formative stages and has offered valuable suggestions for its improvement. The ineptness of expression and errors of omission and commission remain, of course, the writer's.

of thought. This possibility appears to have occurred first to J. M. Clark. He has pointedly observed that a "new" economics is called for. The "new" economics would require a theoretical framework that relates "money income and expenditure" flows to the flows of "real production and real income."[1]

Almost as if by spontaneous combustion there has followed a significantly new economic literature, embracing in some instances serious attempts to knit together the two areas. Included are highly advanced reflections by the way of journal articles, on various aspects of the relationship; and there are several texts of a similar purpose, the first of which to appear in this country was Lorie Tarshis' *The Elements of Economics*. In 1944, a Swedish economist, Johan Åkerman, had attempted independently of the discussion here and in England, a treatise rather than a text on the two areas. Zeuthen, the well-known Danish economist, published as early as 1942 a treatise on methodology bearing on the subject.[2]

II

It may be argued that there is no "practical" way of determining whether that economics which sets forth the theory of the competitive private enterprise system is a valid attack upon the real world. The real world at its best is an abstraction which can only exist in the consciousness; while the competitive private enterprise economy as a strictly closed system—as is the usual approximation—actually does not and cannot exist. The theory of the competitive private enterprise economy can but largely set forth an ideal, a normative conception of the economic universe.

To the extent economics is to have a normative connotation and to the extent that the best elements of the competitive private enterprise system are to be preserved, the theory still must be applied. "Must" is perhaps a question-begging term. The proposition may be put this way: in the attempts to achieve economic stability (e.g., full employment), the formation of relative prices (costs) and in turn their relationship to a general level of prices cannot be ignored. The desired level of employment must be consistent with at least a majority of prices. If it is not, a full employment level may not be realized except by the accident of an unforeseen but major shift in the price level. The private enterprise economy does not operate on the criterion of full employment in the "numerical" sense of the term. As long as there are more than vestiges of the market left, it operates, among others, on the criterion of the best use of limited resources; and, if not too many frictions and structural impediments are put in the way of its operation, it should at least set the stage for bringing full employment equilibrium of the flows of all resources, including labor. Monetary-fiscal policy *over time* may be successful only so far as disturbances can be absorbed, and their absorption may depend in no small degree on a fairly flexible price system.[3]

[1] J. M. Clark, "Educational Functions of Economics After the War," *The American Economic Review*, Vol. 34, No. 1, Part 2, pp. 56–57.

[2] Lorie Tarshis, *The Elements of Economics;* Joe S. Bain, *Pricing, Distribution, and Employment;* Johan Åkerman, *Ekonomisk Teori*, Vols. I and II; and F. Zeuthen, *Okonomisk Teori og Metode*.

[3] Henry C. Simons, "Hansen on Fiscal Policy," *The Journal of Political Economy*, Vol. 50, p. 163.

The Keynesians on the other hand have gained a major point. As a result of studies on employment and wages by them and by Pigou,[4] certain concessions concerning the effect of price and wage cuts on employment have been made by the classical students of business cycles.

More recently, the case for flexible prices has been restated in light of this advanced thought. This development dates from Friedman's criticism of the abstractions which Lange introduces in his critique of relative price theory.[5] Lange's position is that flexible prices do not contribute to stability and to full employment equilibrium, that they instead may bring instability. But, says Friedman, Lange's argument rests on highly untenable postulates for he offers an explanation of a kind of economic process that has little to do with the actual world. Friedman takes a view quite opposed to the proposition that flexible prices are instable and goes out to develop a theoretical framework for stability that rests on a special recognition of relative prices.[6]

Right now it is apropos to observe that existing wage policy may have disastrous effects upon world economic stability and growth.[7] Reflecting still further upon the short-run effects of wage policy, it may be noted that highly arbitrary increases in incomes for the organized groups, trade unions, farmers, and so forth, could very well lead to negative shifts of propensity-to-consume schedules of those income groups whose incomes have remained relatively constant or may even be declining. Aggregate demand may therefore shrink and with it employment. Such an induced shift in the propensity-to-consume schedules may prove to be the explanation of the recession of late 1948 and early 1949.

But in spite of what may be said about the contemporary developments in price theory, the juncture of these two areas of theory is still in the future.

To restate the argument, let these areas be tentatively renamed: the study of relative prices and resources allocation, "microeconomics;" and the study of growth of the economy and full employment, "macroeconomics."

In criticism of contemporary explorations in micro- and macroeconomics, Kenneth Boulding,[8] in his review of Tarshis' text, has this to say:

> . . . the state of current theory is curiously inconsistent . . . the student is confronted with a theory which involves such concepts as the rate of interest and the marginal efficiency of capital which clearly are supposed to apply to individual firms, and yet which he has not encountered once in the section devoted to theory of the firm . . . A firm is not interested in maximizing net revenue without regard to the effects of such maximization on its capital-debt-liquidity structure . . . current theory has resulted in an almost com-

[4] A. C. Pigou, *Employment and Equilibrium;* James Tobin, "Money Wage Rates and Employment," an Essay in Seymour E. Harris, *The New Economics;* A. H. Hansen, "Cost Functions and Full Employment," *The American Economic Review*, Vol. 37, p. 552.

[5] Oscar Lange, *Price Flexibility and Employment;* Milton Friedman, "Lange on Price Flexibility and Employment," *The American Economic Review*, Vol. 36, p. 613.

[6] Milton Friedman, "A Monetary and Fiscal Framework for Economic Stability," *The American Economic Review*, Vol. 38, p. 245.

[7] See especially David McCord Wright, "New Frontiers of Economic Thought—Discussion," *The American Economic Review*, Vol. 36, No. 2, pp. 145–46.

[8] Kenneth Boulding, "Professor Tarshis and the State of Economics," *The American Economic Review*, Vol. 38, p. 94.

plete failure to perceive that liquidity (or other asset) preferences may be as important an element in explaining the demands for input or the supplies of output from a producer as it is in explaining the behaviour of a bank.

In a word, firm asset and debt management, monetary theory, and relative prices are no longer different regions, to be kept foreign to each other. Out of their analysis must come the truly new economics. Obviously, here is no easy task.

The writer wishes to add a brief point to Boulding's. The linking of micro- and macroeconomics is going to depend upon how the transformation of the micro-equations into the macro-equations, that is, the step from entity to the whole, is achieved. An understanding of the policy of the firm in its assets and liabilities management over the business cycle may provide the key to this transformation. To give effect to time and spatial consideration, so that the cycle may be viewed as a part of process, "*over* the business cycle" should be emphasized.

III

But before this possible interpretation of the cycle is considered it is essential to straighten out the relationship of the entity to the whole, or of a single firm or individual consumer to the totality termed the economic system. Is it possible to move from the entity to the whole and derive the sum of the parts?

When the economist attempts to observe the operation of a theoretically closed system, it is almost impossible for him to avoid disturbing that system. This is the phenomenon which Lord Keynes had in mind when he contended that the classical system's *ceteris paribus* about income was all wrong. It may therefore be questioned whether the observations upon the actions of the single firm or individual can be transformed into an adequate theory of the whole.[9]

The writer is prompted to raise this question, as Whitehead has raised it in his study of disturbances under process in nature. And it does seem valid that the theory of disturbance applies to the economic system, even more than it does in nature. But Whitehead presumably does not believe that the whole, the complex thing, nature, is discovered by its breakdown into the elements (events) which go to make it up, for "analysis disintegrates their [the elements] structure." For him, a thing can be defined only by its relationship to other things.[10]

This view has influenced Ramsperger[11] to observe about the economic system that "as soon as there is a division of labor, pure individualism has already been abandoned," and ". . . even though all value is to be found in individual experience, certain needs cannot be satisfied for each person in isolation from others." The implication is that individual action is not something by itself, it is relative to the actions of others. Presumably (social) science should examine actions as of a people (perhaps groups), and not as of an individual. Can it thus really be decided that the microscopic is not to be joined with the macroscopic? For ex-

[9] Rutledge Vining, "Koopmans on the Choice of Variable to be Studied and of Methods of Measurements," *The Review of Economics and Statistics*, Vol. 31, p. 77; Tjalling Koopmans, "A Reply," *ibid.*, p. 86.

[10] Alfred North Whitehead, *Science and the Modern World*, p. 121.

[11] Albert G. Ramsperger, *Philosophies of Science*, pp. 276ff.

ample, is it only from the whole that the Keynesian "psychological law," the propensity to consume, is to be inferred, so that this law can have no consistent relationship to the microscopic view upon economics?[12] To which, some would undoubtedly reply, "Yes."

But can it be so replied? Must not the economist also examine how individual human action is affected or why it is as it is, or else he cannot say how such a law arises? It is one thing to discover a "statistical experience" which *appears* to hold over time; it may still be another matter to explain its origin, why men act as they do. For if the economist fails to explain the general pattern he creates an abstraction which may be far removed from the reality which he seeks to explain by means of the abstraction.[13]

Whitehead's dictum that a thing is defined by its relationship to other things may surely be accepted. His is a perfectly useful application of the principle of relativity. Phenomena of human action are definitely elements in "a completely rationalist world." But the economist cannot permit an abstraction to depart too far from reality and reality is often not apprehended very adequately by his complete consciousness. Instead, it is perfectly justifiable for him to think of and investigate parts, "to abstract them from the whole," *so long as he bears in mind that he is making such abstraction.* The writer believes this qualification of Whitehead's method to be perfectly reasonable. It should make Whitehead's philosophy of the nature of things more acceptable than has been the case. It would seem that the inconsistency which has been said to exist between his relativity principle and his subjectivist principle, at least in part, is corrected, even though Whitehead himself would say that there are no clear-cut principles to begin with.[14]

By such analysis, the economist does not, in the theoretical sense, unduly disturb the system; and he may get away from that kind of explanation of business "cycles" which goes out from the conception of the cycle as a "gap."[15] Entirely new concepts may be essential.[16]

IV

Indeed, the concept of the business cycle is being changed, to read between the lines of the literature, embracing such widely divergent views as represented by Hansen and Simons, and by more recent students of trends, particularly Higgins, Howard R. Smith, and Wright.

[12] Cf. Howard R. Smith, "The Status of Stagnation Theory—Part I," *The Southern Economic Journal*, Vol. 15, p. 192.

[13] Cf. Mordecai Ezekiel, "Saving, Consumption and Investment, I and II." *The American Economic Review*, March and June 1942, pp. 22 and 272; for a considerate view on the matter see James S. Duesenberry, "Income-Consumption Relations and Their Implications," an Essay in *Income, Employment and Public Policy*, Essays in Honor of Alvin H. Hansen, pp. 54ff.

[14] See John W. Blyth, *Whitehead's Theory of Knowledge*, Chaps. 2 and 11.

[15] Gunnar Myrdal, "Economic Development and Prospects in America," *Ekonomisk Tidskrift*, 1944, p. 1; in Swedish; translated by the National Planning Association, Washington, D. C.

[16] Johan Åkerman, *Ekonomisk Teori*, I, pp. 56–57.

Wright's position is of special interest. He holds that "any growing market economy will not be self-adjusting."[17] Adjustment to changes in consumption and investment, associated with economic development, involves such frictions and disturbances that the economy is subject to "waves" of economic activity. But, as he emphasizes, there appears to be no unique explanation of these "waves" and they "can be due to a number of varied forces, some of which will predominate in one cycle and some in another." The latter view is comparable to Simon's.[18] It appears that the business cycle as a market economy pnenomenon is different from the phenomenon which evolves in an economy where there is more or less concerted effort to stabilize.

Moreover, the inability of economic forces to enfold smoothly is not a characteristic of the capitalistic economy alone. Both Åkerman and Cassel contend that planned economies may be similarly afflicted, for the reason that the errors of forecasting and planning can lead to cumulative disturbances comparable to the "capitalistic cycle."[19]

Whether the "cycle" so-called is cyclical is thus debatable. It may be that the cyclical interpretation of this "abberations" phenomenon is a product of a mechanistic view upon the economic system, stemming from the nineteenth century conception of cosmology. Then, nature was regarded as knowable only by virtue of the unchanging elements in it. The modern conception of cosmology, however, finds nature a continuously changing process (Whitehead), and knowing nature means understanding the process. This nineteenth century theory of knowledge was largely founded on the theory earlier held by the Grecians, notably Aristotle and Socrates. They believed that, even though the world was changing, it was changing in a cyclical manner, with the process usually always re-establishing the earlier state of affairs (equilibrium in the strictly mechanical sense of forces being transmuted and equalized). There was always an element of continuity in the sense of certain forces remaining constant.

By inference, Harrod[20] distinguishes this mechanistic conception of the cycle from what might be termed a "dynamic" conception of economic fluctuation. He says:

> Fluctuation does not seem in itself to be inconsistent with a long run constancy in the fundamental determinants . . . But there is little doubt that the trade cycle we know is conditioned by its occurrence in a dynamic (growing) economy. In my judgment much of the trade cycle theory of the inter-war period, especially in the monetary field, fell into confusion for lack of a clear understanding whether its assumptions were static or dynamic or which assumptions belonged to which category, and arguments were apt to be vitiated by the intrusions of an extra dimension or its omission.

The economist may thus and perhaps must go beyond a mechanistic view upon the cycle. Neither the mechanistic theory of the business cycle nor the theory of the private enterprise economy has advanced to a stage where economic change

[17] David McCord Wright, *The Economics of Disturbance*, pp. 62 and 63.
[18] *Op. cit.*, p. 163.
[19] Cf. Johan Åkerman, *Om Det Ekonomiska Livets Rytmik*, pp. 145–147.
[20] R. F. Harrod, *Towards a Dynamic Economics*, p. 12.

may be regarded as a process, where there is nothing fixed but the idea of change itself. Each theory rests on the assumption that some elements, "structure," resources, wants, and technology, are unchanging ("given").[21]

If a particular moment or period of time in which to observe economic process is chosen it is perhaps inevitable that economic adjustment is viewed as cyclical. But a process is not confined to a moment or a period of time. A process is, in a sense, time itself. Changes in things occur as a relatively continuous process, and the change may be said to involve the destruction of one thing at the same time it is building up into something else. The whole process of conversion from one thing to that of something else is conceived only over time or, more accurately, the interstices which connect one change with another add up to a whole, to give time.[22] The particular things, phenomena or events, possess certain characteristics over time, but over a period of time in which those characteristics or qualities can be established. In a word, process cannot exist at a moment of time.

Thus if the economist comes to think of the cycle and the long-term trend as constituting entities in economic process, the whole, he may get away from the contemporary differences between the Keynesians and the non-Keynesians, once he recognizes the interrelationship and interdependence of entity and the whole. And in getting away from those differences he may achieve a dynamic economic theory, at least from the standpoint of tackling current economic problems.

V

Thus, the third bit of speculation, methodology, arrives upon the scene. It was perhaps inevitable.

The future of methodology more than appears to hinge upon what construction may be made of the relationship of the cycle to long-run trends. While the doctrines of "economic maturity" and "economic progress" perhaps should be evolved as having "an independent meaning of their own," it may be found that neither the cycle nor the long-run trend can be treated as distinct phenomena. Indeed the two phenomena are sufficiently closely related, if Schumpeter, Åkerman, and Wright are followed to warrant proposing that the idea of separate treatment be reconsidered. Higgins' interpretation of Schumpeter's cycle suggests exactly this.[23] Schumpeter's "cycle," he says, ". . . consists of an inflationary boom and recession, but secondary effects due to frictions produce the depression and recovery phases . . ." The trend is drawn through the inflation points. "For Schumpeter, there are at least three such trends." But, as Higgins notes, it is a third concept which approaches the real world; " . . . there is the actual trend, which is a product of innovations, population changes, frictions, and government policies." This trend presumably falls below "the full employment level," and it can be said to be brought below that level by the same forces which are active in inducing the cycle: change and frictions.

It does not seem possible, therefore, that the cycle and the trend can be studied as wholly separate phenomena, if full understanding is to be had of each,

[21] B. S. Keirstead, *The Theory of Economic Change*, pp. 7, 63–104.

[22] R. Das, *The Philosophy of Whitehead*, Chaps. II and VI.

[23] Benjamin Higgins, "Concepts and Criteria of Secular Stagnation," an Essay in *Income, Employment, and Public Policy*, pp. 87–88.

although Higgins may entertain an opposed view. Keirstead in one respect, does agree. He finds that, even though the cycle is self-generating,[24] "... the movement of this [Keynes'] cycle may be in conjuncture with other processes or events, such as the upward or downward long-run swing in economic activity. . . ." Having conceded this much, Keirstead might be prevailed upon to concede the whole proposition. For the sake of argument, it is assumed that he does, that the cycle and trend are a virtually inseparable relationship.

It is now possible to take a bold step in an entirely new direction. For the sake of argument, it may be said that an economic system exists largely because there is motion involving change, change particularly of the relations of individuals and of groups to each other, and arising out of population, institutional, and innovational changes. If there is no economic activity originating in change, it is possible that the system eventually would evaporate and a fairly anarchial relationship of individual to individual would evolve. As long as there is change, however, economic process—interrelated trend and cycle—continues. Indeed, the system is essentially a process, a relationship of individuals, groups, and things which is always en route. Conceivably this process could be creative, stationary, or degenerative.

Moreover, there are various possible economic systems. What remains of the private enterprise economy, in the traditional sense, is one of the several possible. The laws which define it are arbitrary. Since they are arbitrary there might be other laws equally arbitrary and these would define other systems. But, to follow Whitehead, the important thing from the present standpoint is that since the laws being what they are they are not perfectly obeyed. Therefore, "disturbances" which "cause" the process to deviate from previously "determined" trends arise. Conceivably, the disturbances may generate such wide divergencies from the trend that a new system tends to subvert the existing one. Process then no longer partakes of the old but more and more of the new.[25]

As a "driving force" contributing to change, Åkerman places considerable weight upon the gradual shift from the traditional liberal economy (the X-economy) to the planned or collectivistic economy (the Y-economy).[26] To be sure, there are other "driving forces": population growth, innovations, money-credit practices, the distribution of income, etc. The classicists virtually ignored these disturbances, either by rendering them *ceteris paribus* or by subsuming them under a catch-all of frictions and inertias, so that their impact is set aside. The system is closed and a proper theory of growth and disturbance has not been developed.

It is necessary instead to "correlate" the disturbances, the behavior of various individuals and groups, or the "experiences" which are derived from the observa-

[24] *Op. cit.*, p. 349.

[25] Let us note, however, that disturbances may be of two kinds. As just mentioned, they may arise from the failure to obey the laws of the system. Or they may derive from the attempt to analyze the system, as a result of the interdependence of the variables. While we measure one variable we inadvertently affect the others. Our concern is chiefly with the former kind.

[26] Johan Åkerman, *Ekonomisk Teori*, Vol. II, pp. 61-78.

tion of data (which will probably be largely "historical"). A class of things and a schemata of the classes of things, in turn, both changing as process changes, are needed. A description of the economic system, not at any one moment of time but at what amounts to all moments,[27] is also essential. Once having carried through a correlation of experiences, it is possible to derive such a schematization and an understanding of change as permits going beyond simple empiricism as, for example, would be contained in the analysis of the usual statistical time series.

There is no reason for arguing that history consistently repeats itself. Yet, since the study of economic process and its disturbances may largely have to come around to some historical approach, the question is: what method? What can be found in the past, through observation, which permits correlation with the experience of today so that generalizations about these phenomena can be drawn?[28]

Certainly there must be some abstraction and in a discovery of that abstraction the answer to these questions may be found. History per se has no scientific value. It achieves value only insofar as it (the description) is related to an abstraction which, in the field of the social sciences, may be and usually is found in the area of explanation of human conduct. The business cycle, for example, is characterized, to borrow Wicksell's terms, by a cumulative process upward and a cumulative process downward. *Here is history and abstraction.* It is the behavior of people, frequently acting over time as a group or as influenced by others of a similar bent or inclination, which may be of major importance to the explanation of a cyclical contour of process.

In recent theory the concepts of price and income expectations and of lags between variables have been invented to help explain why equilibrium or stability are so difficult to establish, and why there are drawn-out processes, up or down, away from some concept of a "norm." But here an appendage, much like the friction-inertia appendage of the classicists, is largely achieved. Dynamic reality may call for more than such extensions of the classical system,[29] for these appendages may be too all-inclusive to give adequate meaning to the dynamics of our contemporary world.

Of course the economist must observe what is the nature of consumption, investment, and saving under change. But he needs particularly to get at patterns of behavior lying underneath consumption, investment, and saving—on both a micro- and a macroscopic basis. In suggesting a micro-macroscopic attack upon behavior, the writer thus differs with certain Keynesians. Ayres, for example, holds that "the belief in the dependence of economic growth upon the cumulation of funds did not originate in any" detailed analysis "of saving, investment and consumer spending;"[30] and that the system cannot be extended through the examination of details.

[27] Herbert Dingle, *Through Science to Philosophy*, p. 270.

[28] *Ibid.*, Chap. 1 and pp. 81–84.

[29] Cf. R. F. Harrod, *op. cit.*, Chap. 1.

[30] Clarence E. Ayres, "The Impact of the Great Depression on Economic Thinking," *The American Economic Review*, Vol. 36, No. 2, p. 117.

Nevertheless, a major difficulty with Keynesian method (as well as with Stockholm school method) is that it is not sufficiently microscopic. Those unfortunate forecasts of high post-war unemployment by Bassie, Hagen, Smithies, and others, stem largely from the failure of the macroscopic approach to reflect "internal shifts" in the consumption schedules for various economic groups. Their macroscopic method is not adequate to yield the nature of economic process. In fact, it may be said that macroscopic method is impossible without microscopic method. The processes of consumption, saving, and investment may vary "internally." It is necessary to learn whether the universe which is treated is sufficiently homogeneous to warrant subsuming it under a given function. Therefore, it is quite necessary to use microscopic method to discover the characteristics of the given universe, to learn how much of behavior can be regarded organismically and how much cannot!

This viewpoint, however, does not deny that theory must be derived under the postulate of interdependence. On the contrary, it lends support to economic theory as a discipline stating interdependence of the elements which contribute to change in economic process.

Process means that the organism, *in its various aspects*, is undergoing change through which it more or less continuously is taking on new forms or patterns in every part of itself—often some parts more rapidly than others, but therein lies the need for understanding interdependence. *A* becomes *B* and does so over time and space so that time and space are a part of the process, *not apart from the process*. The so-called process analysis of the Scandinavians is not of the same order.[31] Their method means the study of adjustment from one equilibrium position to another (both stated as potential), with the equilibrium positions of a static nature. Time is therefore instantaneous and not a part of the process. But in the concept referred to here, time and space are in a sense the boundaries of the process and are not independent variables. In themselves they are not real but only potential. It is in this area that the abstractions of the Newtonian mechanics and the Euclidean world, which still govern much of recent economic development, are rather distantly removed from reality, so distantly in fact that their application is possible only for extreme conditions of stability.[32]

In the world of economic behavior it does appear that process, as considered here, is as apropos as it is in the physical world, perhaps even more so. In the case of changes which impinge upon the economy (or actually are a part of economic process when viewed in the sense intended here), space and time are not fixed but are "instant bits of duration," under which an entity comes into existence,

[31] The reader is referred especially to an article by James Dingwall: "Equilibrium and Process Analysis in the Traditional Theory of the Firm," *The Canadian Journal of Economics and Political Science*, Vol. 10, pp. 448–463. Here is one of the most illuminating discussions on "process" methodology to be found in contemporary literature. See also Ernst W. Swanson, "Full Employment Patterns in 1950: Some Comments," a paper given at the Annual Meeting of the American Statistical Association, Atlantic City, Jan. 25, 1947, for a review of contemporary method.

[32] Cf. Karl H. Niebyl, *Studies in the Classical Theories of Money*, pp. 157–160.

"a special scheme of extensive relationships, which in the end is the meaning of space and time."[33]

Consider the concept, "transportation." As an abstraction it has not changed; the object which has made it possible, however, has changed greatly and almost continuously. The "event" of the steam locomotive must be understood not as any independent, unforeseen bloom, but as a "nexus" of happenings (a series of circumstances): the ideas and devices of the lever, the wheel, the gear, and the reciprocating engine. These ideas were conveyed into a new entity—*A* into *B*. To explain "how it happened," the "life history" of the steam locomotive is a process, a spatial thing, taking place over time. (Moreover, there is a teleological connotation all along in "the effort gone into to improve transportation.")

By this view, change is not a particular occasion but rather it is a relationship between the past and the present, to engender a future thing. When something "happens"—as the steam locomotive—that something is one possibility. From the same ideas other developments may have been possible.[34] It is in this respect that prediction enters: "determination" of the most probable "event." And it is when the economist points to these possibilities that he correlates experiences.

Instead of preoccupation with differences between consumption expenditures, savings, and investment, and the effects of these differences upon income formation, the economist perhaps needs to explore motives and changes in motives, as arising under changing structure and institution. "If human motives are of thus and such an order, the expected subsequent action would be of such and such a nature."[35] Human motives change structure and structure in turn acts upon human motives; hence, changing "patterns" of spending, saving, and investing develop.

The "details" of spending, saving, and investing require that the economist look at the plans of different individuals or groups of individuals, observing and correlating his observations, to establish whether these individuals and/or groups have the same or different "feelings" about things. Process is not a single plan, nor is it a sum of plans; rather it must be looked upon as a concatenation of plans of different individuals or of different groups of individuals, each affecting the other.

VI

To help clarify the nature of change in method, it may be worth while to try to compare the setting of the classical with that of the contemporary world. Each calls for a particular method.

Contrary to the contention of those who have ignored the setting, classical method was developed as a part of a problem-solving approach of classical economics.[36] Economics did not originate and develop in a vacuum.[37]

[33] R. Das, *op. cit.*, p. 82.
[34] Alfred North Whitehead, *Process and Reality*, p. 262.
[35] B. S. Keirstead, *op. cit.*, p. 18.
[36] Cf. J. M. Keynes, *General Theory*, etc., p. 3.
[37] Karl H. Niebyl, *op. cit.*, Chap. 1.

Neo-classical value and distribution theory was affected by the interests of the then dominant group. As the private enterprise economy developed that group became the owner-operator. Its interests revolved largely around the choice of the best combinations of productive agents enforced by the search for greatest economic efficiency, under a fairly close approximation to pure competition.[38] Its microscopic method developed to a high order of refinement, since the chief problem was with the details of ratios of labor to capital. The concern over the use of total resources was pushed into the background.

In modern industrial society, impregnated as it is with monopolistic competition, brought into being by big business, big industrial unions, and big farm organizations, the setting has changed markedly and with it the problem. The event of big business meant the abdication of the owner-operator in favor of the hired manager. And the dominant group has become the employed worker. For this new group the problem is not resource allocation, but among other things, job security.

The economy of rational behavior is being gradually displaced by the economy of an approximation to traditionalism. The drift is toward group action and group motivation. Wants are more and more dominated by group standards, the latter colored by individual behavior to preserve rather than to advance positions. Productive effort is more and more dominated by group standards intended to compress individuals into fairly comparable molds of behavior (better: conduct; since the ends are problematic from the standpoint of group action).

The economy thus departs significantly from the fairly atomistic order of two or three generations ago. It becomes a blend of group and individual behavior (conduct) and, to borrow Whitehead's term, it takes on some of the characteristics of an "organism." The individual and groups are differently motivated. Consumption spending, saving, and investment are differently affected, as structure and institutions change.

The new setting therefore tends to force the chief emphasis to be put upon the macroscopic view on the economy. The microscopic view, while now secondary, has its role to play in helping to observe the behavior patterns as they are reconstituted. The growing organismic nature of the economy makes macroeconomics more essential today than it was yesterday; but, since individuals may still deviate from group patterns and may on occasion set the pace, microeconomics becomes the right hand of macroeconomics.

It does seem, therefore, that Åkerman's combining of macroscopic and microscopic methods[39] may be the happy solution to the contemporary needs in economic methodology. Åkerman's view is basically the writer's, that, until economists are better informed, the business cycle may be conceived of as a structural and, at the same time, a self-generating phenomenon; the economist turns to study the course of the self-generating cycle *over time*. He must, therefore, analyze the impact of changes in innovations, population, and technology upon institutions, the production structure, the monetary-fiscal structure, and

[38] F. H. Knight, *Freedom and Reform*, pp. 56–57, 233.

[39] Johan Åkerman, *Ekonomisk Teori*, Vol. II, p. 44.

the income structure. By such an approach both macro and micro methods are made essential. Macro method would be applied largely to the structural changes; while micro method becomes the analysis of the details of spending, saving, and investing, to determine how homogeneous our universes are.

VII

There is much to be done before there is an economics which is as basically problem-solving as was the economics of Adam Smith, Ricardo, and Mill, or for that matter Marshall's, or Wicksell's, each in its setting. Contemporary conceptions of the cycle and the long-term trend will have to be modified considerably and their interdependence be made a part of the approach to economic disturbances. Such considerations should make the economist doubly aware of the poverty of his present methods.

Method is not a stationary thing. The writer deems its development one of the major necessities of the economic discipline today. He can but agree with Whitehead that "The Certainties of Science are a delusion. They are hedged in with unexplored limitations. . . . Whenever some new modes of observational experience is obtained, the old doctrines crumble into a fog of inaccuracy."[40]

To follow the road plotted here, among other essentials, is a system of transformation of the one set of equations into the other, so that macroeconomics will be properly joined with microeconomics. In that search, the difficulty of treating a heterogeneity of the agents of production and, particularly, the fact that capital assets of the firm are not the homogeneous, perfectly substitutable phenomena usually supposed in present-day macroeconomics, will in all likelihood be encountered. There may also be need to study intensively multiplier effects which arise out of different forms of investment and associated with variations in the behaviors of spender, saver, and investor, but especially as the product of the diversity of capital expenditures. Those shifts in liquidity preference which may have their roots in the firm's disposition of assets may also influence the multiplier and should be thoroughly reviewed in the light of structural change. By these findings the nature of micro- and macroeconomics may be significantly modified. These and other matters call for further exploration.

The writer closes by saying: He hopes that he has not forced the reader to stretch his credulity to the breaking point. Conceivably, were Low, the British caricaturist, to come across this piece, he would label it: "A recurrent fluctuation disturbing fundamental equilibrium."[41] The reader might well concur. Emphasizing the exploratory nature of what has been said, his august reflections are nonetheless invited.

[40] Alfred North Whitehead, *Adventures of Ideas*, p. 198.

[41] See his cartoon, *The New York Times*, Sunday, July 10, 1949.

PUBLIC POLICY AND MONOPOLY: A DILEMMA IN REMEDIAL ACTION

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To those who have followed the efforts of the federal government to promote the public welfare by directing economic activity during the past decade and a half, the need for a cohesive, well-defined policy has become increasingly evident. In perhaps no single area of activity has policy been so seemingly incongruous as in the field of monopoly. On the one hand, to obtain a more economical allocation of resources, the Antitrust Division of the Department of Justice condemns industrial structures which give rise to price and output patterns that do not approximate those which would exist under moderately competitive conditions. On the other, to effect a more "equitable" distribution of income and greater economic stability, Congress has, in effect, created agricultural cartels through a price support and production control program and the executive, judicial and legislative branches of our government have deliberately fostered and created "public interest" monopolies and strong labor unions. Moreover, the government's encouragement of collective action among industrialists under NRA evidenced a belief that monopoly need not always be inimical to the public welfare. Hence, one might justifiably conclude that it is the occupational or temporal incidence of monopoly and not monopoly per se that is bad, and might well ask whether over-all public policy toward monopoly is to vary with respect to particular markets and various phases of the business cycle, or whether the government has in mind some optimum "coefficient of monopoly" toward which all economic markets are to be directed.

These incongruities in the *political* economy are not difficult to explain. Governments, both state and national, respond to unequal political pressures with varying degrees of alacrity. They have fostered cartel arrangements and estabsished controls designed to aid those who are politically strong collectively but who individually are economically weak, and have sought to weaken those who are economically powerful but whose political influence (voting power) is weak. Moreover, from the standpoint of law, regulatory and antitrust cases do not present the courts with a single problem. In one, the court passes upon the constitutional authority of governments to regulate an industry; in the other, it decides whether or not a federal statute has been violated. One might even argue defensibly that the courts have interpreted the legislative intent in both a political and legal sense with a certain consistency, yet, the inconsistency with which the government has approached the monopoly problem in its economic sense is inescapable. Superficially, the evidence indicates that our policy has been to eliminate extreme forms of both monopoly and competition wherever they abide or whatever the circumstances that give rise to them. Actually, since 1930 public policy toward monopoly seems to have been inextricably submerged in the tri-

chotomy of stability, income distribution, and resource allocation. That a policy which condemns monopoly generally as anti-social and at the same time fosters monopoly to accomplish certain objectives (economic stability, more equitable income distribution, etc.) is riddled with internal conflict and can at best meet with but limited success, seems beyond reasonable doubt. Monopoly practices overlooked or encouraged during periods of depression are likely to serve as embarrassing legal precedents in later years. For example, victories recently achieved by the Anti-trust Division in the *Tobacco case*,[1] and to a less extent those won in the *National Lead*[2] and similar cases, clearly indicate both an intent and the ability to prosecute successfully price and output practices born of oligopolistic rationality.[3] But decisions in these and other recent cases also illustrate the difficulties the Antitrust Division confronts in obtaining the remedies it deems appropriate. In fact, if one discounts the tactical worth of many of the recent decisions, they might be appropriately termed "phantom" antitrust victories. It is not the purpose of this paper to engage in value judgments with respect to the wisdom or folly of the policy that can justifiably be inferred from these antitrust decisions. Rather, it proposes to show that a public policy which condemns oligopolistic rationalization along with traditional monopoly on the one hand after it has effectively eliminated the more perfectly competitive markets by yielding to political pressure groups on the other presents the courts with a remedial dilemma. The broader dilemma, namely, how to maintain the vestiges of a free enterprise economy in a society which at once condemns near-perfect competition, oligopoly and monopoly as inimical to the public welfare will be left for the reader to solve.

I

The traditional public utility concept was born when the Supreme Court handed down its well-known decision in the *Munn v. Illinois* case[4] in 1876. Having no real precedent upon which to base its decision,[5] and since the grain elevators involved were not licensed by public authority (hence, the right to regulate could not stem from special privilege), the Court decided the case purely upon

[1] *American Tobacco Company v. United States*, 328 U. S. 781–815 (1946). See *Infra*.

[2] *United States v. National Lead Company et al*, 332 U. S. 319–369 (1947). See fn. 27.

[3] For a full development of this point of view see William H. Nicholls, "Economic Consequences of Recent Antitrust Decisions: The Tobacco Case of 1946," *American Economic Review*, (Annual Supplement, 1949), pp. 284–296.

[4] *Munn v. Illinois*, 94 U. S. 113–154 (1876). In violation of an Illinois statute (1871), Munn and Scott had continued to operate their Chicago grain elevator without a license and without complying with prescribed storage rates. Action was brought against them in the Cook County Criminal Court where the defendants were fined. The fine was upheld in the Supreme Court of Illinois and in the Supreme Court of the United States. The fact that Chicago grain elevator operators had frequently entered into collusive agreements with respect to storage rates was given considerable weight by the Court in its decision to uphold the Illinois statute.

[5] The Supreme Court dragged out a two-hundred year old essay, *De Portibus Maris*, written by Lord Hale and often referred to one of the author's statements—"When private property is affected with a public interest, it ceases to be *juris privati* only." The essay was hardly a real legal precedent.

economic grounds. The 14 grain storage plants operated by 9 firms were strategically located in the market. Their location gave them the power to exploit if not to stifle the grain industry. Moreover, the 9 firms had frequently gotten together to set prices. Firms so located with the power to set prices could operate against the public welfare; therefore the state of Illinois had a right to regulate the industry to protect the public from exploitive practices.

Although the court did not unswervingly apply the initial principles expounded in the *Munn* decision, protection of the public as a justification for regulation continued to be the hard core of jurisprudence in intra- and interstate public utility decisions and state and federal legislation until the 1920's. Compatible with the basic social philosophy which prompted the enactment of the Sherman Act, the ostensible purpose of public utility regulation was to curb monopoly power where monopoly was an economic necessity. Whether in harmony as practiced or not, from the standpoint of public policy principles the Sherman Act and the public utility concept were, until 1934, not beyond the pale of reconciliation.

Under the obstetrical care of New Deal philosophy, the Supreme Court (albeit an "Old Deal" one) gave birth to a completely new and revolutionary facet of the public utility concept in 1934 with its decision in the *Nebbia* case.[6] No longer was protection of the consumer the *sine qua non* for the right to regulate. Instead, the court decided in this instance that a state could so regulate price as to protect the investment of firms subject to too much competition! A brief review of two cases decided in the early thirties helps document this reinterpretation of the concept. The decisions rendered in these two cases are of particular interest since they reflected the attitude of the court toward market conditions that might conceivably prevail should firms in an industry composed of few producers fail to take cognizance of the indirect effects of their price policies.

The first indication that protection of investors' profits as well as the protection of consumers from exorbitant prices could also be cloaked with a public interest was evidenced in Mr. Justice Brandeis' famous dissenting opinion in the *New State Ice* case.[7] He stated:

> . . . the relative ease and cheapness with which an ice plant may be constructed exposes the industry to destructive and frequently ruinous competition. . . . The erection of a new plant in a locality already adequately served often causes managers to go to extremes

[6] Harold M. Gray argues, on the basis of the *Nebbia* decision and the subsequent perversion of the traditional public utility concept to anti-social ends, that this era witnessed the end of regulation in the public interest. See his "Passing of the Public Utility Concept," *Journal of Land and Public Utility Economics*, Feb. 1940.

[7] *New State Ice Company v. Liebmann*, 285 U. S. 262–311 (1932). The state of Oklahoma had passed a law in 1925 which conferred upon the State Corporation Commission the right to limit the number of ice plants by requiring a license of all who produced ice for public consumption. Liebmann purchased a plant site near that of the New State Ice Company in Oklahoma City and commenced constructing an ice plant. The New State Ice Company brought suit to enjoin Liebmann from doing so. The United States Supreme Court decided by a 6 to 2 decision (Mr. Justice Cardozo did not take part in the decision) that the Oklahoma statute violated the Fourteenth Amendment. The case is probably known chiefly for the dissenting opinion.

in cutting prices in order to secure business. Trade journals and reports of association meetings of ice manufacturers bear ample witness to the hostility of the industry to such competition, and to its unremitting efforts, through trade associations, informal agreements, combination of delivery systems, and in particular through consolidation of plants, to protect markets and prices against competition of any character.[8]

In this case Brandeis, notwithstanding his anti-bigness bias, appeared to condone private as well as public attempts to curb price competition. He called the attention of the court to the depressed condition of the economy and emphasized that the court should keep in step with the current of social thinking. He stated, "Economists are searching for the causes of this disorder and are re-examining the bases of our industrial structure. Business men are seeking possible remedies . . . But rightly or wrongly, many persons think that one of the major contributing causes [of the depression] has been unbridled competition."[9] It took only two years for the majority of the Court to become infused with the Brandeis viewpoint.

The right to protect the vested interests of special groups from competition was abruptly snatched from out of the realm of philosophical speculation and made a real part of public policy with the *Nebbia* decision[10] and legislation enacted after 1932. Under the impetus of diminishing profits, attributable chiefly to price competition from independent dairies, dairymen associations had petitioned the state of New York for a bill which would protect their members from the competition of small, non-member producers. The U. S. Supreme Court upheld the statute 5 to 4. When he delivered the majority opinion Justice Roberts admitted that the "dairy industry is not, in the accepted sense of the phrase, a public utility." He stated, moreover, that the court, in this instance, was not looking for monopolistic practices although the price discrimination and the limitation of membership practiced by the milk associations were convincing evidence that monopoly was present. The real problem was protection of assets of dairymen by granting them higher prices and higher incomes. An inference that might reasonably be drawn from the decision is that had the monopolistic practices of the associations provided sufficient protection against competition from the in-

[8] *Ibid.*

[9] *Ibid.*

[10] In 1933 the state of New York enacted a statute (Chapter 158, Laws of 1933) which created a milk control board to deal with the "acute emergency" characterized by "unhealthy, unfair, unjust, destructive, demoralizing, and uneconomical trade practices" which menaced the health of the public and "seriously impaired the agricultural assets supporting the credit structure of the state and its local governmental subdivisions." 262 NY 259, 186, N.E. 694, P.U.R. 1933 D 225. It has been generally agreed upon that the "impairment of the public health" clause of the statute was not a serious issue in the case. See Irston R. Barnes, *Cases on Public Utility Regulation*, pp. 48–53; and Emery Troxel, *Economics of Public Utilities*, pp. 21–23. The milk board had imposed a minimum price on milk sold in the state of New York of $0.09 per quart. Litigation in three courts (City Court of Rochester, New York Court of Appeals, and the United States Supreme Court) resulted when the city of Rochester fined Leo Nebbia, an obscure grocer, $5.00 for selling 2 quarts of milk and a loaf of Italian bread for the sum of $0.18!

dependent dairymen there would have been no need for the New York statute. Professor Troxel, commenting upon the decision, stated "The *Nebbia* decision, keeping judicial pace with New Deal government, is a turning point in old economic liberalism—the old individualism of private business. Price control now can be extended beyond the familiar 'public interest' categories; it can be applied to the 'sick' and disturbed industries of too much competition as well as the exploitive industries of too little competition."[11]

This break with tradition was no momentary deviation on the part of the government to meet the economic crisis of a depression.[12] Subsequent legislation and court decisions furnish adequate evidence that the government is as willing to prescribe cartelization as competition as an economic cure, e.g., the *Bituminous Coal Conservation Act (1937)*, the price supports and output quotas for agricultural commodities, and labor legislation in the thirties to mention only a few such instances. Moreover, the *Sunshine* case,[13] the *Hutcheson* decision,[14] and the recent *Bulwinkle Act* have virtually placed the coal industry and the monopoly practices of labor unions and railroads beyond the reach of the antitrust laws. Hence, unless the Supreme Court has managed to maintain a state of immunity from this new approach to economic market solutions, decisions in antitrust cases, particularly decisions with respect to remedial action, have been made vastly more complicated. Prior to 1930 the court had principally to judge the existence of monopoly; today, the court, if it accepts the logic of its own position, is further confronted with the extraordinarily difficult task of weighing the influences of monopoly upon resource allocation, economic stability and income distribution. The most optimistic economist would concede that this constitutes no mean task.

[11] Emery Troxel, *op. cit.*, p. 21.

[12] Professor William H. Nicholls, who critically read the first draft of this paper, pointed out that initially it probably was but that in effect the deviation could not be momentary since a reversal, once the case became a judicial precedent, was politically very difficult.

[13] *Sunshine Anthracite Coal Company v. Adkins*, 310 U. S. 381–405 (1940). The Sunshine Anthracite Coal Company filed a petition with the National Bituminous Coal Commission for exemption from the price stabilization provisions of the Bituminous Coal Conservation Act of 1937 on the ground that its coal was not bituminous. The petition was denied. While the proceeding was pending the appellant filed suit to enjoin the appellee from collecting a $0.195 per ton tax applicable to his coal sales should the commission decide that his company came under the provisions of the act. In deciding against the appellant the court stated that Congress had the power to impose price controls and to single out a particular industry and remove it from the penalties of the Sherman Act.

[14] *United States v. Hutcheson*, 312 U. S. 219–246 (1941). The case was precipitated by a jurisdictional dispute between the United Brotherhood of Carpenters and Joiners and the International Association of Machinists. Both unions had collective bargaining agreements with Anheuser-Busch. The activities of the carpenters union were the basis for the restraint of trade charge. The indictment stated that the carpenters, through collusive agreements and boycotts, had extended the effects of their strike to the construction and other industries and through a publicity campaign had attempted to boycott dealers in Anheuser-Busch beer. The Court agreed that these activities constituted a restraint of trade but held that provisions of the Clayton Act and the Norris-LaGuardia Act placed them beyond the reach of the Sherman Act.

II

The trend toward governmental acceptance and sponsorship of privately and publicly controlled markets clashes severely with the directional movement in antitrust prosecution. Although a well defined pattern of antitrust decisions is difficult to discover,[15] overt acts which may be construed as an intent to monopolize an industry or to restrain trade have accounted for most of the victories won by the Antitrust Division. Decisions against monopolies per se have been tempered by the rule of reason: The Standard Oil[16] and Tobacco[17] trusts were dissolved as "bad" monopolies; on the other hand, United States Steel[18] and Inter-

[15] See Milton Handler, "A Study of the Construction and Enforcement of the Federal Antitrust Laws," TNEC monograph no. 38; and Walton Hamilton, "Antitrust in Action," TNEC monograph no. 16.

[16] *Standard Oil Company of New Jersey et al v. United States*, 221 U. S. 1–106 (1911). The Standard Oil Company of Ohio had controlled only 10 per cent of the petroleum industry in 1870. By 1879, through such predatory practices as the suppression of competitors through its pipeline and railroad activities, the Standard Oil Trust had obtained control over 90 per cent of the industry. The trust had been ordered to dissolve in 1892 but the trustees simply transferred the stock of 64 companies to 20 that they controlled. When held in contempt by the Ohio Court the trustees took refuge behind the New Jersey holding company laws under which the Standard Oil Company of New Jersey had been formed. The government brought its dissolution suit against the holding company in 1906. The United States Supreme Court, in a unanimous decision, ordered that the trust be dissolved in 1911. Collectively, the predatory practices of the Standard Oil Trust have been frequently referred to as the most flagrant deliberate violation of the Sherman Act in history.

[17] *United States v. American Tobacco et al*, 221 U. S. 106–193 (1911). The original American Tobacco Company had been formed in 1890 as a result of a consolidation of five leading cigarette manufacturers who collectively controlled 96 per cent of the total domestic cigarette output. By 1898 the Company, through its subsidiary, the Continental Tobacco Company, had obtained control of plug tobacco production. The following findings of fact led to the Supreme Court's decision to dissolve the trust: (1) the first combination had been impelled by fierce price wars; (2) consolidations in various fields had always been preceded by trade conflicts designed to drive out competitiors or force them to enter the combination; (3) the manifest purpose of the trust had been to obtain control and keep it; (4) by obtaining control of various stages of production in the manufacture of all tobacco products, the trust had held perpetual barriers in front of new entrants; (5) millions of dollars had been spent on assets that were never used but dismantled; (6) covenants not to compete had been systematically obtained from all sellers.

[18] *United States v. United States Steel Corporation*, 251 U. S. 417–466 (1920). The United States Steel Corporation had been organized in 1901 to acquire the stock of 12 operating companies. The amalgamation had been marked by watered stock and huge promoters' profits ($62.5 million). The government had charged the company with (1) wrongful motive; (2) price-fixing arrangements with competitors; and (3) bigness. Testimony by competitors that price competition still existed in the steel industry and that they did not have to accept the prices of United States Steel virtually removed the first two charges, leaving only bigness as an issue. The court then ruled that mere size was no offense if monopoly was no longer intended and if the competition of rivals was not restrained or limited. The court attached considerable weight to the fact that United States Steel had, by the time the suit was brought, lost a large share of its market (from 70 per cent to 50 per cent). Hence, the court ruled, United States Steel had failed to establish a monopoly. The company escaped dissolution by one judicial vote.

national Harvester[19] escaped dissolution on the grounds that their predatory practices had been either ineffective in the market or had been discontinued by the time the case came before the court. The inability to visualize a remedy that promised to improve market conditions has also influenced antitrust decisions. For example, the United Shoe Machinery Company[20] was left intact although the company's monopoly of the shoe machinery market was virtually complete; yet, in the *Anthracite Coal* cases, holding companies that accounted for from 20 to 30 per cent of their markets were dissolved, probably because a divorce of railroading from coal mining offered itself as a painless remedy. The per cent of market control has entered into several antitrust decisions but did not play a determining role until the recent *Aluminum*[21] decision. In cases brought against combinations to fix prices the court has been much less given to indecision. In both the *Trenton Potteries*[22] and the *Socony-Vacuum*[23] cases the court declared a combination to fix prices illegal regardless of the "reasonableness" of the price.

[19] *United States v. International Harvester Company*, 274 U. S. 693–710 (1927). The court here adopted the same line of approach used in the *Steel* case. A consent decree had been worked out with International Harvester in 1918 in which the company had been ordered to dissolve to such an extent that competition would prevail. At that time International Harvester controlled about 85 per cent of the domestic productive capacity. By 1927 the company's share in the market had been reduced to 64 per cent. The court ruled, therefore, that independents had been able to compete and that wrongful purpose had been abandoned by International Harvester. The court ruled, moreover, that the acceptance of International Harvester as a price leader in the industry did not constitute a violation of the Sherman Act by International Harvester.

[20] *United States v. United Shoe Machinery Company*, 247 U. S. 32–91 (1918). The government filed suit requesting the dissolution of the United Shoe Machinery Company in 1911 on the grounds that (1) the company was a combination of competing concerns; the purpose of the combination had been to create a monopoly in the manufacture of shoe machinery; and (2) the company had sought to further and maintain the monopoly by employing an elaborate system of leases and tying contracts. On the first count, the court held, as in a previous criminal case against the company's president [*United States v. Winslow*, 227 U. S. 202 (1913)], that the original members of the combination did not compete with each other and that subsequent acquisitions had not removed competition in any real sense. On the second count the court held that the leases were entered into voluntarily and without coercion. The purpose of the leasing system was to make the sets of machinery available to customers on easy terms and to promote their efficient and productive operation to insure adequate royalty returns. The conditions of the leases were within the lessor's patent rights and, hence, did not constitute a violation of the Sherman Act. The court later modified its position with respect to the company's system of leases and tying contracts; see *United Shoe Machinery Corporation v. United States*, 258 U. S. 451 (1922).

[21] In *Geddes v. Anaconda Copper Mining Company*, 254 U. S. 590–602 (1921), the court implied that control of 22 per cent of the market did not constitute a monopoly if achieved without predatory practices or injury to competitors. The Aluminum Company of America was judged to be a monopoly on the grounds that, among other things, it controlled about 90 per cent of the domestic "virgin" ingot market. *United States v. Aluminum Company of America*, 148 Fed. 416 (1945). The Circuit Court also served as the final court of appeal.

[22] *United States v. Trenton Potteries Company*, 273 U. S. 392–407 (1927). The Court declared unlawful a price-fixing agreement entered into by persons manufacturing and distributing 82 per cent of the vitreous pottery bathroom fixtures produced in the United States. In arriving at its decision, the court was not concerned with whether the price fixed was reasonable or not: "The aim and result of every price fixing agreement, if effective, is the

No consistent pattern of decisions evolved from these pivotal antitrust cases, yet, in spite of sporadic reversals of course, individual decisions passed down in antitrust and public utility cases prior to 1930 sprang from a common economic philosophy and could be reconciled with advances made on the legislative front. Certain precepts that were fundamental to the survival of an economic system which had as its mainspring a free market allocation of resources could be traced through court decisions and state and federal legislation: (1) The broad segment of the economy in which the power of individual firms was held in check by the dynamic forces of rivalry was to be left alone. (2) Where certain firms, either through the process of licensing or because of their strategic location in the market, were placed in a position to exploit the public, the arbitrary use of such power was to be subject to review by a public regulatory body, e.g., the traditional public utilities. (3) Firms which acquired a high degree of market control through acts which indicated an intent to monopolize or restrain trade were to be judged as operating against the public welfare and ordered to desist (National Cash Register and St. Louis Terminal companies), to dissolve (American Tobacco, Northern Securities, Standard Oil, Union Pacific, Southern Pacific, Reading Anthracite Coal, Lehigh Valley Railroad Co., and others), or were proceeded against on criminal charges and fined. (4) The environmental boundaries within which industry must confine itself were gradually narrowed as state and federal legislatures outlawed certain anti-social conditions and practices such as long hours of work for women, the exploitation of child labor, and unsafe and unhealthy working conditions. Although loosely knit, negativistic in approach, and cloaked in such abstractions as "reasonableness," "predatory," etc., public policy toward monopoly was cohesive at least in the sense that all markets were judged by a common norm of behavior. The ideal was pure competition but the practical norm was effective rivalry. Where this condition was not fulfilled, dissolution or regulation was frequently prescribed.

Against the background of the thirties, some of the recent antitrust decisions, particularly the *Tobacco* decision, bring into sharp relief the conflict between the economic stabilization and the resource allocation objectives of a public policy presumably directed against monopoly per se. According to Professor Nicholls, "There was plentiful and undisputed evidence that the three defendant domi-

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elimination of one form of competition. The power to fix prices, whether reasonably exercised or not, involves power to control the market and to fix arbitrary and unreasonable prices. The reasonable price fixed today may through economic and business changes become the unreasonable price of tomorrow." *Ibid.*, at 397.

[23] *United States v. Socony-Vacuum Oil Company*, 310 U. S. 150-267 (1940). The court further reaffirmed the *Trenton Potteries* ruling in its *Socony-Vacuum* decision. In order to make its position quite clear the court stated, "Thus for over forty years this Court had consistently and without deviation adhered to the principle that pricefixing agreements are unlawful per se under the Sherman Act and that no showing of so-called competitive abuses or evils which those agreements were designed to eliminate or alleviate may be interposed as a defense." *Ibid.*, at 218.

For earlier rulings against price fixing see *United States v. Trans-Missouri Freight Association*, 166 U. S. 290 (1897); *Addyston Pipe and Steel Company v. United States*, 175 U. S. 211 (1899); and *Swift & Company v. United States*, 196 U. S. 375 (1905).

nant firms had behaved identically. . . . Nevertheless, the *Tobacco* case was probably unique in that there was not one whit of evidence that a common plan had ever been contemplated or proposed."[24] Confronted with this lack of evidence, the court inferred conspiracy from actions that result from rational oligopoly behavior and ruled that reasonable behavior under oligopolistic market conditions constituted an unreasonable restraint of trade. Had this been a civil instead of a criminal case, the dilemma of appropriate remedial action would then have been real rather than speculative.

The *Tobacco* decision is probably of little significance in itself. Since the court was not called upon to prescribe a remedy and since the fines were nominal, such changes in price behavior as has subsequently developed in the tobacco industry are probably attributable to the tactical merits of the case.[25] What is important, however, is that the decision to include rational oligopolistic behavior among the conspiracies to monopolize conflicts sharply with the creation of privately and publicly controlled markets that has proceeded at such a rapid pace since 1934 under governmental tutelage. The implication of the *Tobacco* decision is that a single producer in an industry composed of a small number of firms is henceforth to behave as though his own actions have no effect upon the decisions of his rivals; yet, the Supreme Court, in effect, condemned this sort of behavior in the *Nebbia* case and permitted the dairymen's associations, under the guise of the "affected with a public interest" doctrine, to commit overtly the same acts which the big three cigarette producers were accused of committing tacitly. And, although a single individual may legally fix the wage at which miners will mine coal, price similarities which result from a long-run profit maximization policy on the part of each firm in an industry operates against the public welfare.

Hence, it is difficult to escape the conclusion that over the past decade and one-half the government, through court decisions and legislation, has employed at least two norms of market behavior in framing public policy. One calls for cartelization and the positive creation of local and national monopolies to protect asset values and earning power; another, limited almost exclusively to manufacturing, calls for the maintenance of atomistic competition.[26] In so applying two standards the government has probably destroyed infinitely more competition than it can possibly hope to create. But, what is more important, these conflicting standards of economic performance have and probably will continue to present insuperable obstacles to the prescription of remedial measures sought by the Antitrust Division through the courts. Even in an age where syndicalism has become the economic *modus operandi*, the court, as a group of jurists, may, through a technical application of the antitrust laws, find that elements of monopoly exist in particular industries. However, the court, as a tribunal cognizant

[24] W. H. Nicholls, *op. cit.*, p. 285.

[25] Some insignificant price differentials among the big three cigarette producers have appeared since the decision was rendered.

[26] It is unlikely that anything short of a fairly large number of independent firms would completely eliminate pricing practices similar to those which prevailed in the cigarette industry if it can be assumed that each producer will demonstrate a degree of intelligence compatible with the preservation of his long-run interests.

of the economic consequences of its decisions, is not likely to remain for long immune to a prevailing social philosophy. In the search for appropriate remedies, the court would have failed to accept the logic of its own position if it did not view the economic performance of an industry against its broad economic setting. Hence, the court is more likely to apply standards of economic performance compatible with the prevailing public policy toward markets than to harken back to the standards of 1890. Thus, unless the government continues to view the manufacturing sector of the economy as a special case—to be subjected to its own special rules of behavior—remedies for rational oligopolistic behavior can hardly be expected to emanate from the courts. Indeed, to prescribe such remedies would run counter to most of the broad principles of public policy which have been developed since 1934. If collusive action is to be the recommended cure for highly competitive markets, it is improbable that atomization can be prescribed as the cure for oligopolistic markets where, presumably, rational behavior has already attained a price and output pattern consistent with those created or encouraged by governmental authorities.

Should the court continue to apply the standards of economic performance envisaged by the antitrust laws at the prosecution stage but feel disposed to take cognizance of changes which have occurred in economic policy since 1934 when it comes to grips with remedial recommendations, the Antitrust Division may win some decidedly "phantom" victories in the future. Cases which serve as precedents in antitrust prosecution may indeed lead to a verdict of guilty of monopoly in the trial of certain oligopolistic practices, but prevailing economic policy would dictate that few if any remedies be prescribed. There is considerable evidence to be gleaned from recent antitrust cases that some "phantom" victories have already been won. In the *National Lead* case[27] the Antitrust Division successfully proved to the Court the existence of monopoly by Sherman Act standards but the requested dissolution of the two large titanium producers was denied. The flat glass producers were indicted for monopoly but there is little evidence that any remedy will be prescribed to make the glass producing industry any less oligopolistic.[28] The Antitrust Division won its case against the Aluminum Company of America in 1940; nevertheless, the government recently sold one of its largest wartime constructed alumina plants to Alcoa. Rational oligopolistic behavior among steel producers has long been evident, yet the

[27] *United States v. National Lead Company et al*, 332 U. S. 319–369 (1947). The government alleged in its complaint that National Lead and DuPont monopolized and restrained trade in the titanium market through patent pools, market allocation, and participation in an international cartel. The court held that certain agreements between the defendants were illegal and ordered them to grant applicants a non-exclusive license under certain patents at a uniform and reasonable royalty. The request by the government that National Lead and DuPont each be required to divest themselves of one of their two principal titanium plants was denied. "It is not for the courts to realign and redirect effective and lawful competition where it already exists and needs only to be released from restraints that violate the antitrust laws." *Ibid.*, at 351.

[28] A consent decree has just been worked out between the flat glass producers and the Department of Justice. The details of the decree have not yet been made public.

government did not hesitate to sell U. S. Steel its wartime constructed Geneva steel plant in 1946. Moreover, U. S. Steel, through its subsidiary, the Columbia Steel Company, acquired the assets of the Consolidated Steel Corporation, the largest steel fabricator on the West Coast, in February 1947. When the Antitrust Division sought to enjoin U. S. Steel from consummating the purchase the District Court and the Supreme Court denied the injunction.[29] Even in the *Tobacco* case, where rational oligopolistic behavior was identified with collusive action, no remedy other than that implicit in the decision itself can be easily visualized, i.e., cigarette pricing practices cannot be the same as those which would exist under price collusion.

In conclusion, therefore, it would seem that the Supreme Court faces a real dilemma in prescribing remedies for oligopoly markets. The only apparent remedies for oligopolistic rationality are (1) atomization to the extent that no single producer would consider the indirect effects of his pricing policy; or (2) government regulation of oligopoly markets. To prescribe (1) would run counter to most principles of public policy toward markets developed since 1934. To prescribe (2) would be tantamount to removing the remaining vestiges of a competitive society. For, since the traditionally competitive markets have been syndicated by government action, most free markets contain some element of oligopoly. Hence, the decision to include oligopolistic rationality among monopoly practices envisages a norm of economic behavior of a far higher order of competition than is consistent with the public policy to be inferred from governmental action over the past one and half decades. This does not necessarily mean that the Antitrust Division's efforts to prosecute rational oligopolistic behavior are a wasteful expenditure of their resources. As a tactical weapon, if judiciously employed, the threat of prosecution might easily eliminate some of the more insidious market practices at birth. Rationality is not insensitive to social and legal environment. Large producers of commodities and services have given evidence of increased awareness of public sentiment in the postwar era. It is highly probable that they, in their efforts to escape the stigma of antitrust prosecution, will avoid many of the monopoly practices upon which society frowns.

It is to be reiterated, however, that few if any positive remedies for oligopolistic rationality can be expected to emanate from the courts. Atomization harkens back to a competitive standard applied to but few areas of the economy since 1934. Since all branches of the government have participated in limiting its applicability, the courts can hardly feel called upon to recommend atomistic competition as a cure. To do so the justices would be guilty of arbitrarily alternating between wearing their black robes of death and their white robes of mercy

[29] *United States v. Columbia Steel Company et al*, 334 U. S. 495–540 (1948). The company contended that Consolidated Steel was acquired to insure the Geneva rolled steel plant a market for its output. The court held that the proposed acquisition did not appear to be an attempt to monopolize the production and sale of fabricated steel products on the West Coast. In denying the injunction the court held, moreover, that vertical integration was not illegal per se, its illegality was to be determined by the nature of the market to be served, the leverage on the market which the particular integration created, and the purpose or ntent for which the combination was conceived.

while deciding upon similar economic issues. On the other hand, the history of public utility regulation offers little reason to be optimistic concerning the outcome of public regulation of oligopolies. Since the Supreme Court, in keeping with "the social philosophy of the times," has demonstrated far less reluctance to approve regulation than dissolution, and since the Antitrust Division, in keeping with its avowed purpose of maintaining free competion, is more likely to seek the latter than the former as a remedy, the future holds prospects for little more than occasional light skirmishes against monopoly until all branches of the federal government can reach an agreement upon what the fundamental principles of public policy toward monopoly should be.

SOME EFFECTS OF RENT CONTROL

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It is now more than seven years that rents have been controlled; the eighty-first Congress continued general control to the end of June, 1950. Continuation beyond this date is uncertain as this is being written (October, 1949). It is the purpose of this paper to examine the effects of this effort on: (a) the distribution of housing space; (b) the distribution of income; (c) investment in housing; and (d) to appraise the probable effect of the removal of control on these three magnitudes and on the level of rents. The argument rests mainly on theoretical considerations, but empirical evidence is introduced at a number of points.

The theoretical analysis of rent control rests on some principles which are quite elementary, indeed distressingly so. They are so obvious that one would feel the greatest reluctance to repeat them on the pages of a professional journal were it not that a great public policy has been erected upon either ignorance or a repudiation of them. If we were to ask a competent sophomore what would happen if consumers' real income increased some 60 per cent while the price of a service of more than zero income elasticity were held constant, we should be justified in expecting him to answer that the quantity demanded of the service would become greater than the quantity supplied and the market would be in disequilibrium. And the sophomore who met our expectations would thereby have uncovered the central element in the housing problem, about which so much has been written and spoken and over which many families have experienced great annoyance and no little hardship.

If our sophomore were something more than competent, if he had a touch of affection for the subject, he would go on to express a doubt that much new investment would be attracted to the production of the service in question, that, instead, investment would look for richer pastures in those areas of the economy where maximum prices were not fixed. He might then, warming to the problem (and perhaps seeing an *A* shimmering before him), go on to say that buyers would engage in a scramble for the service fixed in price with the distribution of it becoming a very haphazard affair. In all this, he would be most correct. But if it then were asked of him whether the theoretical observations applied when rental housing was the service in question, he would, like most members of the human community, draw himself up sharp before the heartlessness of applying the elements of supply and demand analysis to so tender a thing as home and hearth. He would revert to phrases about, "Housing is a necessity" . . . "Rents in a free market would be exorbitant" . . . "People would have no place to live" . . . "Landlords would make enormous profits out of the poor." He might so recoil at the thought of free rents that he would go to the library and there discover that the removal of rent control would be inflationary, that it would lead to strikes, that it would reduce the purchases of durable consumer

goods and hence lead to unemployment. But for all of his instinctive (and commendable) sympathies, his original remarks still would be correct.

Between 1939 and 1948, the disposable income of individuals increased from $70.2 billion to $190.8 billion, or 172 per cent. During the same period the rent index of the Bureau of Labor Statistics increased 12 per cent. The result was, first, an absorption of vacant rental space, then a quick gobbling up of such new space as became available at approximately the same rent as old space, and finally a general pressure of the aggregate demand for housing against a rigid level of rents. While rents increased about 12 per cent, the index of all consumer prices rose about 68 per cent.[1] This meant that rental housing became relatively cheaper, and an additional force was exerted to push the demand for housing to the right. The increase in incomes itself moved the demand in this direction, and the movement was the greater because rents were fixed while the prices of competing goods and services were not. Finally, the higher income and employment level and the relative decrease in rents was accompanied by an increase in the birth rate and in the size and number of families.

The sum of these changes has brought a great increase in the demand for rental housing without a commensurate increase in the supply. Since the price has been held constant, a condition of disequilibrium has been created and has persisted. The shortage is, of course, another way of expressing the fact of disequilibrium, and the various estimates of the amount of the shortage mean, if anything, the difference between the amount of space demanded at current rents and the amount supplied. And the statement of the Administration that rents must be controlled until the shortage disappears means that they must be controlled forever—on the likely assumptions that incomes will never fall to their 1939 levels and subsidies on a grand scale will not be undertaken.[2] To appraise the problem by other standards is to take it out of economics. It may be desirable to do this; those who think so should justify their view in more detail than they yet have done and should propose appropriate changes elsewhere in the economy. Until that is done, we must get on as best we can with an economic analysis of the problem.

I

On the demand side of the market, rent control presents two problems: How does the quantity demanded of rental space change when its price falls relative to the prices of other consumer goods and services; and how does the quantity demanded change when there is an increase in the real income of consumers? These matters can be examined either with reference to price and income elasticity or with reference to the indifference functions of rental space and competing goods and services.

In the repeated efforts to impress the consumer with the value of budgeting, one point seems to have left more of a mark than others. Many, perhaps most,

[1] See Tables I and IV.

[2] "The present housing shortage makes it necessary to continue rent control for at least two years, and to strengthen its enforcement. I recommend that this be done." President Truman, Jan. 7, 1949, reprinted in *The Economic Reports of the President*, I, xxvii.

families seem to believe that a fixed percentage of their income should be spent on housing. To the extent this belief is practised, the price elasticity of demand is unitary. Twenty-five per cent is the proportion usually cited as the desirable one. Although there is considerable dispersion in the percentage between income levels, it seems to be fairly uniform at each level, particularly at those where the greatest amount of housing expenditure is made. This spending is not only on rent but on fuel (where it is not a part of rent costs), utilities, household furnishings and equipment. The last two items (which strictly regarded are capital expenditure) comprise at least half of the total outlay on housing, which means that rents, whether paid over to a landlord or imputed on owner-occupied buildings, comprise only one element in the amount budgeted for housing.[3]

Table I shows for the period from 1929 to 1948 disposable income, consumption, money expenditure on space rents (rent paid over to a landlord), and the ratio of rent expenditure to disposable income and consumption. Disposable instead of personal income has been used, because it is out of this sum that all spending and saving comes. Although housing expenditure may be budgeted out of total personal income, actual expenditure obviously is made out of disposable income. It is disposable income which provides the most reliable basis for estimating relative rent expenditures because of the increase in personal income tax rates and the lowering of the exemption level during the period under study; moreover, disposable income is more relevant to the problem of how expenditure would change if rent controls were removed.

In 9 of the 13 years before rent control, the ratio of space rent to disposable income was from 5 to 6 per cent. From 1931 to 1933, it was above 6 per cent, and the comparatively high values may reflect the fixed nature of many rental contracts (or merely consumer inertia). After 1940, the ratio fell continually, and in 1948, the last year for which data are available, it was 2.7 per cent.

The relationship between rent and consumption is introduced because it may be felt that expenditure on any single commodity or service group is more appropriately considered an element of total consumption expenditure than of disposable income. The ratio of rent expenditure to total consumption expenditure reveals the same counter-cyclical tendency as the ratio of rent to disposable income, although the amplitude of fluctuation is less. As changes in consumption are usually less than changes in income, the ratio of any given amount to consumption will change less than the ratio of the same amount to income. The rent-consumption ratio was greater than the rent-income ratio in all years except 1931 and 1932, the latter being a year in which consumption was greater than

[3] See the data on consumer expenditure in *The Survey of Current Business*, July 1947, and July 1948 (*National Income Supplements*).

Total expenditure on housing varied between 23 and 33 per cent of disposable income in the years 1929 to 1941, and was less than 30 per cent in 11 of the 13 years. The percentage was between 17 and 21 per cent between 1942 and 1947.

In 1947, 12 per cent of income was spent on rent, according to the "1948 Survey of Consumer Finances" made under the direction of the Federal Reserve Board and reported by Clarke L. Fauver, *Federal Reserve Bulletin*, Sept. 1948, pp. 1058–65. As income was not otherwise defined, presumably personal income was used.

income and savings were negative. Savings were negative in 1933 also, but the consumption ratio was less than the income ratio because of the sharp decline in rental expenditure following upon an almost equal decline in rents.

The rise in money income in the years 1942 to 1944 reduced the consumption ratio less than it reduced the income ratio because of the increase in savings. However, after 1944, the fall in the consumption ratio was less than the fall in the income ratio, because of the decrease in savings relative to disposable income. This is consistent with the contention introduced below that a part of the

TABLE I

Income, Consumption, and Rent Expenditure

	(1) DISPOSABLE INCOME (BILLIONS)	(2) CONSUMPTION (BILLIONS)	(3) RENT EXPENDITURE (BILLIONS)	(4) RENT EXPENDITURE AS PERCENTAGE OF DISPOSABLE INCOME	(5) RENT EXPENDITURE AS PERCENTAGE OF CONSUMPTION
1929	$82.5	$78.6	$4.4	5.3	5.6
1930	73.7	70.8	4.3	5.8	6.1
1931	63.0	61.2	4.1	6.5	6.7
1932	47.8	49.2	3.7	7.7	7.5
1933	45.2	46.3	3.2	7.1	6.9
1934	51.6	51.9	3.1	6.0	6.0
1935	58.0	56.2	3.1	5.3	5.5
1936	66.1	62.5	3.3	5.0	5.3
1937	71.1	67.1	3.6	5.1	5.4
1938	65.2	64.5	3.8	5.8	5.9
1939	70.2	67.5	3.9	5.6	5.8
1940	75.7	72.1	4.0	5.3	5.5
1941	92.0	82.3	4.3	4.7	5.2
1942	116.2	90.8	4.5	3.9	5.0
1943	131.6	101.6	4.6	3.5	4.5
1944	146.0	110.4	4.6	3.2	4.2
1945	150.7	121.7	4.5	3.0	3.7
1946	158.4	143.7	4.6	2.9	3.2
1947	173.6	164.8	4.9	2.8	3.0
1948	190.8	178.8	5.1	2.7	2.9

Sources: Cols. (1)–(3), *The Survey of Current Business*, July 1947, July 1949 (National Income Supplements).

reduction in rent costs was used to bid up consumer prices as well as to increase total consumption expenditure.

Although the consumption ratio has moved differently from the income ratio, the difference is not an important one for the purposes of this paper, as the preceding remarks indicate. The differential rates of change reveal more about changes in saving than about changes in rent expenditure.

Assuming the price elasticity of demand for rental housing to be unitary, it follows that a given (small) percentage decrease in the price of housing services will produce an equal percentage increase in the quantity demanded, and total expenditure will remain constant, so long as other prices rise in such a way that

the real income of tenants is constant. From this it can be deduced that if money income and all consumer prices *except rent* increase, approximately the same effect will follow—an increase in the amount of rental space demanded. The effect is not precisely the same, because the notion of price elasticity assumes absolutely constant real income and unchanging tastes; an increase in money income and consumer prices other than rent may alter real income and tastes. In order to determine the precise effect on the quantity demanded of housing, it would be necessary to set up a complicated statistical relationship of a kind which is not, however, essential to the argument here. All it is wished to assert is that it is highly probable that between the years 1942 and 1947, while disposable income and consumer prices other than rent rose considerably, consumers on the whole *attempted* to increase their rent expenditure by demanding a larger quantity of rental space.

The income elasticity of demand for housing—as deduced from expenditure figures—is less than unity for most income levels but is far above zero. Although it can be shown mathematically that if price elasticity of demand is unitary, income elasticity also is unitary, the formal relationship holds only for small changes in real income. Studies of outlay on housing and on rent as a part of housing expenditure denote that as income increases, relative expenditure diminishes at most income levels.[4] This is true for changes in individual real income within a constant total and for an increase in the total. Such an aggregate increase in real income has occurred since 1942. As rents have not risen in the same proportion, the increase in expenditure, or the attempted increase, has produced an increase in the amount of space demanded.

The foregoing analysis can be expressed in relation to indifference functions as well as to elasticities. The relative decline in rents has produced an increase in the amount of rental space demanded, an increase greater than the increase in the amount demanded of other consumer goods and services. There has been, in other words, a substitution effect. The increase in real income also has produced an increase in the amount of space demanded. Put another way, the relative decline in rents and the absolute rise in real income have produced, respectively, a change in the slope of the price line relating the cost of rental housing to other goods and services and a movement to the right of the price line. Either of these changes is sufficient to create an increase in the quantity demanded of rental space; together, the increase has been all the greater. The analysis can be carried forward a bit. Since rental space has no perfect substitutes, the change in the slope of the price line and its movement rightward have not brought the renter

[4] See Fauver, *op. cit.* In 1947, families with an income of less than $2000 spent 21 per cent of their income on rent; those with incomes between $2000 and $4000 spent 13 per cent; and those with incomes greater than $5000 spent 9 per cent.

These figures are affected by the disequilibrium in the rental market, but they are consistent with those which obtained before the war. Housing-income ratios computed from the data of the survey of consumer expenditure in 1935–36 denote an inverse relationship prevailed then. Although the ratio of housing expenditure to income is not the same as the ratio of rent to income, the two ratios move in the same direction in an uncontrolled market. See data on consumer expenditure in 1935–36 in *The Statistical Abstract of the U. S., 1940*.

on to as high an indifference curve as would prevail in a free market. The difference between the amount of space which the tenant would purchase at prevailing rents and the amount which is available for use is one measure of the disequilibrium.

These remarks about the demand for rental housing (like any such analytical remarks) must necessarily be qualified according to the special circumstances obtaining in the market. It first must be observed that the demand function may have been changed by the fact of rent control, a point of some importance and one examined below. Secondly, the full force of the substitution and income effects has been softened somewhat by the existence of uncontrolled areas in the housing market (another matter which is considered below). Finally, the idea of a *quantity* of housing is a tenuous one, having little to recommend it other than convenience. The difficulty does not arise because the utility functions among individuals are incomparable. This certainly is true, for one man's dungeon may be another's castle. But the discreteness of taste is not unique to the consumption of housing. The real difficulty arises from the great variations in the quality of housing, and even if we could compare the tastes of individuals we should be unable to appraise their probable reaction to a change in the price of housing or in real income. What heretofore is called (for simplicity) a change in the *quantity* demanded of housing may in fact be a change in the *quality* of housing demanded. A tenant may desire more space of the *same* quality, or he may want more space of a *higher* quality. An increase in the demand for housing can produce any combination of these except both less space and less quality. The quality of housing is dependent on a number of factors which are more or less related to maintenance, services, age, and location but in such a variety of ways as to make any statement about them a most complex undertaking. This means that disequilibrium can obtain in the housing market even though the amount of physical space (measured say in cubic feet, as builders do) is increasing at the same rate as potential rent expenditure.

On the supply side of the rental housing market, the factor most often emphasized is the relatively low elasticity. This is the result of the relatively large fixed costs in housing. But though the relatively low elasticity of supply is indisputable and makes for a sharp rise in rents upon an increase in demand, the matter should not be allowed to rest there. It is to be observed, first, that elasticity is not zero, even in the briefest period of time. An increase in rents will bring to the market certain units which were withheld at the lower rent level. Second, an increase in rents will induce both tenants and owners to offer a portion of their space for rent—spare rooms, for example—because the real (or alternative) cost of such space rises with an increase in rents. Third, and most important, an increase in rents following upon a rise in real demand may bring about a redistribution of space. If the increase should move rents from one equilibrium position to another, the redistribution will have no pronounced effect on the economic utilization of space, by which is meant a distribution of space among families such that any increase (or decrease) in rents per room would cause an increase (or decrease) in the number of persons per room and the creation (or absorption) of vacant space.

But if prior to the increase in rents there should have been disequilibrium because of artificially low rents, the effect on the distribution of space will be quite different. We may suppose that the increase in the demand for space was the product of rising real incomes and that the disequilibrium resulted from suppressing the rise in demand through rent but no other price control. If rents then were freed they would increase relative to other consumer prices. During the period of arbitrarily low rents, some families in the community occupied more space than they otherwise would, i.e., the ratio of the number of persons in the family to the number of rooms it occupied was lower than it would be in a free market. The rise in rents then would force such families into smaller quarters with possibly no change in their rental expenditure. Others in the community who had been living in crowded quarters, spending less on rent than they were willing, would move into larger units. This of course would require an increase in expenditure on rent by some families. Rental expenditure would increase among those families whose income has risen more than the average room rental for the kind of space they desired.

II

A maldistribution of housing space seems, indeed, to be just what rent control has produced. On purely a priori grounds, this is what one would expect. As real incomes increased over the past 7 years, individuals became willing to spend a larger amount on housing. Since the price of housing was held constant, the greater willingness to spend expressed itself in a larger demand. In the first years of control, this produced a rapid absorption of vacant space and of any new space coming onto the market at comparable rents. But while the war lasted, the full effects of disequilibrium were not apparent. There were a number of reasons for this, the principal one being the unsettled family conditions of the period and a reduction in the number of families seeking separate units. Once the war ended, and normal family relationships were restored, the disequilibrium became unmistakable. In addition to the larger number of families now looking for separate dwelling units, there was, upon the end of the war, a continuation of the rise in real income.

The full effect of the pressure of demand upon rigid rents was partially diminished by the removal of price controls on owner-occupied units, by the opening of limited free market rental areas, and by evasion of the rent control law; while outside the housing market, the removal of price controls absorbed some of the dollars that otherwise would seek rental space. The freeing of prices in some areas of the housing market probably produced a more economic use of space in those areas. But this effect has been somewhat offset by the way in which free rent areas have developed. In many instances, landlords were given permission to remodel apartment buildings and to rent the new units for whatever the market would bring, if they could demonstrate that the remodeling would increase the number of rental units. As the new average room rental was usually much above the old, the former tenants were often forced to look for other quarters and so add to the demand for old space while the new tenants who could afford the very high room rents were in most cases those who could afford to

own their residences. That is, the opening of free rent markets favored those families who were most able to take care of their needs by ownership while it worked to the disadvantage of those who customarily rent. (Had the former group occupied its own units, the high ratio of vacancies among owner-occupied units would have been reduced and a better distribution of space established between such units and rental-dwellings.) This has not been true of all free rent areas—not, for example, of units from which control was removed because throughout the period of control they had been occupied by owners—but it has been characteristic of remodeled units and of much new rental construction.

Among those units which have remained under control, there has been an important redistribution of space as that is measured by the number of persons in a family and the number of rooms it occupies. The number of persons per room has decreased, that is, the amount of space occupied by most families is now larger. This is shown in Table II. In 1940, in 31.5 per cent of all of the families in the United States, the number of persons per room was one-half or less; which is to say that in this group there were 2 or more rooms per person. At the other end of the scale, there were 9 per cent of the families and here the number of persons per room was 1.51 or more (or two-thirds of a room or less per person). The housing census of the Bureau of the Census taken in 1947 stated that the families in which there were 2 or more rooms per person now comprised 35 per cent of the total, or about 11 per cent more than in 1940, while the number of families in which there was two-thirds of a room or less per person declined to 6.1 per cent, or about one-third. (In the 1947 census, there unfortunately was no division of the frequencies into class intervals as detailed as those used in 1940.) Another comparison is possible from the data gathered in these 2 years. It shows an increase in the median number of rooms per dwelling unit in 1947, as compared to 1940, and a decrease in the median number of persons per dwelling unit. In 1940, the median number of rooms was 4.73, and in 1947 it was 4.80, while the median number of persons per dwelling unit was 3.31 in 1940 and 3.10 in 1947.[5]

The median occupancy values for the 2 years can be read from the table. In 1940, the number of persons per room was .82, or 1.22 rooms per person; and in 1947, the number of persons per room was .76, or 1.31 rooms per person. The table should be a sufficient demonstration that the disequilibrium in the rental market is not the result of a reduction in physical space (as it is, for example, in many parts of Europe), and that the problem is an economic one: an excess of quantity, or quality, demanded over the amount supplied at the fixed price.[6]

[5] *Statistical Abstract of the United States, 1940*, and *Current Population Report*, Series P-70, Nos. 1 and 2, Bureau of the Census, Department of Commerce.

[6] Even the reduction in physical space, as in Britain, may not be warrant enough for rent control. See J. A. Meade, *Planning and the Price Mechanism: The Liberal-Socialist Solution.*

"One particular price, namely, the rents charged for dwellings is wildly out of line. Rents are practically unchanged from prewar, although the general cost of living is up some 60 per cent and dwelling space is particularly scarce. A rise in rents could not be expected to have any immediate effect in present conditions upon the supply of houses; but it might

The data do not, of course, lie well with the repeated public statements about a "housing shortage." If the paradox indicates anything, it is that economists are usually not the authors of statements which condition public opinion.

The same housing census stated that the number of all dwelling units increased from 37,325,500 in 1940 to 41,747,000 in 1947, and the number of such units occupied increased from 34,854,500 to 39,016,000 in the same period, the percentage increases being 11.84 and 11.94 respectively. There is no way of ascertaining the change in the number of families in the market for housing, because the Bureau of the Census defines a family as all persons living in one dwelling. The Bureau has, indeed, changed the designation from "family" to "household." The increase in the number of households was 11.55 per cent, and its discrepancy with the change in occupied dwelling units must be a small statistical error of some kind. The increase in the total population between 1940 and 1947 was 11.80 per cent. In the absence of any data on the change in the number of families, this must be used, as imperfect as it is. The data on the increase in the

TABLE II

Occupancy of Housing Space

PERSONS PER ROOM	PERCENTAGE OF ALL FAMILIES	
	1940	1947
Less than .50	31.5	34.9
.51– .75	23.4	
.76–1.00	24.9	58.9
1.01–1.50	11.3	
1.51–2.00	5.7	6.1
More than 2.00	3.3	

Sources: *Statistical Abstract of the U. S., 1940*, and *Current Population Report*, Series P-70, Nos. 1 and 2, Department of Commerce.

amount of space occupied by each person and on the change in the number of units and the size of the population—which latter changes were almost equal—indicates that each family is occupying more space than it did in 1940. Although it is highly likely that the average size of the family has increased since 1940, this increase is in no way inconsistent with the fact that the average family is occupying more space than it did before the war. Had the size of the family increased more rapidly than the size of the dwelling unit, the number of persons per room would have increased; it has, of course, moved in just the opposite direction as Table II shows.

These observations refer to all kinds of housing, both rental and owner-occupied and assume that an increase in the amount of space occupied by each

have a most beneficial effect upon the demand for dwelling space. The present position is grossly inequitable and grossly inefficient. Those lucky occupiers who are protected by rent restriction obtain accomodation exceptionally cheaply and have no incentive to economize dwelling space by living in a smaller dwelling, letting off rooms to lodgers, etc." *Ibid.*, pp. viii–ix.

person is an improvement in the family's housing. This is quite a rough measure, because it takes no account of the size of the rooms, the location and age of the dwelling, maintenance, repair, services, etc. The quality of housing may be so important that a family will regard itself as worse off despite an increase in the quantity which it is consuming. If this should be true of large numbers of families, the fact means a gross misuse of resources, to be remedied either by a redistribution of space according to tenants' preferences or a grand rebuilding and remodeling program guided by the same standard.

Another matter is to be remembered in using the data on occupancy. It is the distribution of space between families which rent and those which own. Though no data are available on the number of persons per room in each class, it is probable that the ratio is lower in rental than in owner-occupied units, because the sharp rise in the price of the latter after 1945 forced an economic use of space in them. It may even be that in some areas the ratio of space occupancy in owner-occupied units has risen. In those sections of the country where the dis-

TABLE III

Monthly Rentals, 1940 and 1947

MONTHLY RENT	PERCENTAGE OF ALL FAMILIES	
	1940	1947
Less than $10	17.5	7.2
10–19	27.8	19.8
20–29	23.8	23.4
30–39	15.6	22.5
40–49	8.0	14.7
More than 50	7.3	12.4
Median Rent	$20.09	$29.33

Sources: See Table II.

equilibrium has been most acute, it has driven up the prices of owner-occupied units very sharply because families which otherwise would rent have been forced to buy. The high relative price of such housing would force such families into smaller quarters than owners usually would occupy.

While rent controls altered the distribution of space, they also altered the functional distribution of income. Table III shows the distribution of monthly rentals and the median values for 1940 and 1947. The right skewness of the former distribution was completely eliminated during the war, and in 1947 the distribution was slightly skewed to the left. These figures reinforce what is suggested by Table II, that rental expenditure was increased as a consequence of the greater demand for space pressing against a fixed rental level. Table IV compares the change in all consumer prices with the change in rents and in rental expenditure. While, according to the index, rents had increased by 1947 only some 10 per cent above the pre-war level, rental expenditure had increased almost 40 per cent. It also is to be noted that the ratio of rent to the consumer

price index fell from .88 in 1942, when controls were introduced, to .72 in July 1949, which is to say that between the pre-war period and this year, the relative price of rental housing decreased 28 per cent and between 1942 and mid-1949 about 20 per cent. This cheapening of rent more than compensated for the increase in rental expenditure in the sense that the proportion of such expenditure to disposable income has gone down 50 per cent.

The fall in the *relative* price of rental housing was made possible through a forced reduction in the relative share of rental income in the national income (as landlords have informed us). This is shown in Table V, which contains *total* rental income of persons, total rental income as a percentage of national income, and employee compensation as a percentage of national income. Employee compensation is included because most rent expenditure comes out of it. It must be

TABLE IV

Consumer Prices, Rents, and Rental Expenditure

(1935–39 = 100)

	(1) ALL CONSUMER PRICES	(2) RENTS	(3) RENTAL EXPENDITURE
1939	99.4	104.3	110.2
1940	100.2	104.6	113.0
1941	105.2	106.2	121.5
1942	116.5	108.5	127.1
1943	123.6	108.0	130.0
1944	125.5	108.2	130.0
1945	128.4	108.3	127.1
1946	139.3	108.6	130.0
1947	159.2	110.0	138.4
1948	171.2	117.3	128.1
1949 (July)	168.5	120.7	*

Sources: Cols. (1) and (2), *The Survey of Current Business*, Sept. 1949; Col. (3) computed from data of col. (3), Table I.

* Not available.

observed that the figures for rental income include earnings from property on which rents are not fixed as well as on that on which they are. The ratio of income from controlled units to the national income must have fallen more than the ratio in column (2) of the table. The ratio began to decline in 1938 (again reflecting the fixed nature of rental contracts); the decline continued until 1944, in which year the ratio was the same as it was in 1943. The ratio increased in 1945 and 1946 and dropped sharply thereafter. By 1948, the share of the national income taken by rent was half as large as it was in 1929. Between 1942 and 1945, there was an increase in the relative share of employee compensation; it declined in 1946 and 1947, but the relative decline in the latter years was less than the decline in the ratio of rental income to national income.

Rent control has affected a redistribution in the national income by subsidizing one group in the community at the expense of another. The amount of this

subsidy is the difference between what tenants would have been willing to pay for space and what they did pay. The determination of this amount must rest on an estimate of the ratio between rental expenditure and disposable income which would have obtained had there been no rent control. If in 1948 this ratio would have been the same as it was in 1941—4.7 per cent—tenants would have spent about $8.97 billion. Actual rent expenditure was $5.1 billion. The difference, which was the subsidy, was $3.87 billion.

This estimate is only an approximate one. Much turns on the value taken for the ratio between rent and disposable income. The movement of this ratio is

TABLE V

Rent and Labor Income

	(1) TOTAL RENTAL INCOME OF PERSONS (BILLIONS)	(2) RENTAL INCOME AS PERCENTAGE OF NATIONAL INCOME	(3) EMPLOYEE COMPENSATION AS PERCENTAGE OF NATIONAL INCOME
1929	$5.81	6.6	58.1
1930	4.79	6.4	62.0
1931	3.62	6.1	67.1
1932	2.51	6.2	73.9
1933	2.02	5.1	74.0
1934	2.10	4.3	70.2
1935	2.29	4.0	65.3
1936	2.68	4.1	66.0
1937	3.14	4.3	64.8
1938	3.28	4.9	66.3
1939	3.47	4.8	65.9
1940	3.62	4.5	63.7
1941	4.32	4.2	61.9
1942	5.37	3.9	62.1
1943	6.15	3.7	64.8
1944	6.69	3.7	66.5
1945	6.95	3.8	67.2
1946	6.87	3.9	65.5
1947	7.10	3.5	63.0
1948	7.40	3.3	62.2

Source: *The Survey of Current Business*, July 1947; July 1948; Feb. 1949.

examined in the concluding section of this paper where an estimate is made of rents in an uncontrolled market. Much depends as well on the accuracy of reported rent expenditures, a matter considered a few paragraphs below. Yet however much the figure were hemmed about, two facts would remain: rent expenditure in 1948 was less than it would have been in an uncontrolled market, and the difference constituted a subsidy paid to tenants by landlords. The normative aspects of the matter are examined below.

The amount of the subsidy did not represent a net gain to tenants in the sense that their purchasing power was increased by the amount of the subsidy.

A part of this money gain was dissipated in bidding up uncontrolled consumer prices, and tenants found themselves in a similar, though not identical, position as that of unionized workers after a successful round at increasing wages. As Professor Slichter has said, the main beneficiaries of the increase in money wages have been the farmers because the added wage income has gone to bid up food prices. Though tenants did not gain by the full amount of the subsidy, this in no way reduced its burden upon landlords; indeed, to the extent that the subsidy created higher consumer prices, an additional burden was incurred by them.

An accurate estimate of the subsidy would require more information than is available on actual rent expenditure and on the maintenance of the quality of rental units. One can be certain that actual rent expenditure was greater than that reported in the tables of expenditure statistics, and one can be certain also that the quality of rental units is less than it would be in an uncontrolled market. This sounds like an accusation of black-marketing; I am afraid it is. It is my feeling that this has not been as universal as it is sometimes contended, by landlords who want control removed, by the Administration which wants it made more stringent, or by impressionable individuals who have witnessed some spectacular examples of black-marketing. But that there have been violations is quite plain. Although the instinct for truck and barter has had a hard time of it since the days of the classical economists and has come under some special drubbing in recent years, it is still a hardy trait, and when confronted with a controlled market is not at all inclined to call quits to the game. The history of rent control, especially after the end of the war, provides abundant examples of this. One of the early devices to evade control was a "side payment" or "bonus" to the landlord (euphemisms which people practised in lawbreaking hardly bother to use). A concurrent method was the payment of a reward to anyone who found space for a family in need. Shortly thereafter, the era of furniture sales began, in which the furnishings of a house or apartment were purchased at a price much above their market value as a condition of securing a lease. In close competition with this device was the sale of an expensive commodity at much less than its market value in return for a lease; this was used widely when automobiles were scarce. There were instances, too, of outright barter, as when physicians or dentists offered free professional services for a specified period in return for a lease. But the technique of quite dazzling finesse is the sale of an option on a building containing vacant rental space. The prospective tenant buys the option, allows it to expire, and obtains the space. The list could be enlarged, but it is sufficiently long to suggest that reported rental expenditure was less than actual expenditure.

The actual increase in money rents is impossible to determine for obvious reasons. A suggestion of the actual increase is contained in Table III where the median rental in 1947 is about 50 per cent above that of 1940. The index of rents computed by the Bureau of Labor Statistics rose about 5 per cent in the same period (Table IV). Even though the two measures were computed by different methods, this alone cannot account for their discrepancy. We should expect a

median to differ from an arithmetic mean in distributions which are not normal but hardly by 90 per cent.[7]

When the probable increase in money rents is taken together with the decrease in the quality of rental units, the increase in actual rent expenditure becomes all the more. The decrease in services, such as decorating and repairing, has either forced the tenant to pay for them and hence increase his money payments for shelter or it has decreased the actual returns for any given money expenditure on rent. The landlord is supposed to provide the same services as he did before controls were imposed and any failure to do this is in violation of the law. But in order that such provisions be enforced, the tenant must report violations and the law's administrators must be capable and willing to institute proceedings—none of which conditions has prevailed in any remarkable way.

These violations have raised actual rent costs to tenants by more than the rent index has increased but by less than the average of all consumer prices has risen. For reasons given below, an increase in rents equal to the increase in all consumer prices would have removed the disequilibrium in the market, something which certainly has not occurred.

The effect of rent control on the cost of living is difficult to appraise. Even though some of the gain to tenants has resulted in a rise in consumer prices other than rent, not all of the tenant subsidy has had this effect. It is plausible to think that a part of it has gone into savings, and this portion has exercised an anti-inflationary force in the sense that *consumer* prices are somewhat less than they would be without rent control. The effect of these savings on the level of *all* prices (consumer and other) can only be conjectured. In the inflationary movement since 1945, it is probable that only a small portion of individual savings were hoarded (i.e., had a zero income velocity)—especially those savings made by the income groups from which the greatest part of rental expenditure comes. If this is true, the flow of savings into investment, under the high-level employment conditions which have obtained, resulted in a rise in non-consumer prices.

III

The effect of rent control on investment, both in the field of construction and outside it, must be analysed from a theoretical viewpoint. The data on changes in investment are not in themselves conclusive. In a theoretical view, investment will move away from those areas in which price is less than average total cost and toward those areas in which price is greater than average total cost—with appropriate modifications for imperfect competition: investment will decrease (or increase) if long-run marginal revenue is less (or greater) than long-run marginal cost. A great many factors other than maximum price fixing can retard investment, but price fixing will have such an effect if the average (and marginal) cost functions are increasing. Moreover, investment for replacement, as distinct from net new investment, will diminish in the controlled area. Rent control, that is,

[7] This matter is examined in detail in the valuable article by Sherman J. Maisel, "Have We Underestimated Increases in Rents and Shelter Expenditures?", *Journal of Political Economy*, April 1949.

retards investment in new housing for rental purposes and it reduces the amount of investment for replacement in those dwellings under control. It has not inhibited investment altogether, because investors may expect the removal of rent control in the future and, more importantly, because rents on new buildings are not controlled. But because rent on old units is fixed and is much lower than rent on new units, the demand for new units is much smaller than it would be in an uncontrolled market. Moreover, the demand for new units (judging from their reported rentals) comes from families high in the income scale, and the units constructed to meet this demand are not those which alleviate the disequilibrium in that section of the rental market where the largest number of units is demanded.[8]

It can be assumed that investment in other than rental housing has increased, especially in those areas in which prices have risen most. It has increased in the field of owner-occupied units, but much of this increase, especially in heavily populated areas, has not followed the pattern of tenant preferences which would obtain in a free market but has been determined by the disequilibrium created through rent control. Outside the housing industry, there has been a rise in investment as a consequence of rent control. When general price control was dismantled in the latter part of 1946, there was a substantial increase in inventories, partially the result of higher consumer prices then prevailing and partially because of expectations of still higher prices. Because rental-housing expenditure was held fairly constant, tenants were able to spend more on uncontrolled commodities. At this time, the output of durable consumer goods, though greater than a year earlier, was still smaller in relation to non-durables than it was before the war. We then experienced a sharp rise in the prices of (and expenditure on) food and other non-durables including clothing. In these areas there was considerable new investment during the period of rapidly rising prices. As the output of durables expanded, investment shifted but it did not move to private rental construction, while the amount of public residential construction was negligible.

About the only measures available on construction which would have any relevance to changes throughout the economy are contained in Table VI, which shows gross private investment in residential building together with gross private domestic investment. These figures are from the national income division of the Department of Commence, which publishes only gross figures on investment. As limited as they are for the purposes of this paper, they do suggest an important relationship. It will be observed that in each year between 1929 and 1941, with the exception of 1932, the ratio of gross private residential building to total gross domestic investment varied between about 11 and 24 per cent. In 1948, investment in housing was some ten times greater than in 1945 (the last year of stringent control over building) but its ratio to total private domestic investment increased only about 100 per cent. Moreover, the decline in the relative importance of construction does not demonstrate the full effect of rent control on investment, because the construction figures comprise investment in owner-occupied as well as in rental units. Both kinds of construction increased after the

[8] See above, p. 11.

war, but rental construction increased less. An analysis by the Department of Commerce states that the *number* (as distinct from value) of all rental units started in the spring of 1948 was about 20 per cent of all dwellings started. Between the end of the war and 1948 the percentage was considerably less, and the comparatively high ratio in the spring of 1948 was still only half as large as it was between 1920 and 1930, when about 40 per cent of all dwellings begun were rental units.[9] These data support various statements—from real estate men, builders, and the rent control agency—that new rental construction has lagged behind building for owner-occupancy.

TABLE VI

Investment and Construction

	(1) GROSS PRIVATE DOMESTIC INVESTMENT (BILLIONS)	(2) NEW RESIDENTIAL CONSTRUCTION (BILLIONS)	(3) CONSTRUCTION AS PERCENTAGE OF DOMESTIC INVESTMENT
1929	$15.82	$2.80	17.7
1930	10.21	1.45	14.2
1931	5.36	1.23	22.9
1932	.89	.46	51.7
1933	1.31	.29	22.1
1934	2.81	.36	12.8
1935	6.15	.67	10.9
1936	8.32	1.31	15.7
1937	11.44	1.37	12.0
1938	6.31	1.51	23.9
1939	9.00	2.11	23.4
1940	12.98	2.36	18.2
1941	17.21	2.77	16.1
1942	9.33	1.32	14.1
1943	4.59	.65	14.2
1944	6.40	.54	9.7
1945	9.20	.68	7.4
1946	24.46	3.20	13.4
1947	30.03	5.30	17.6
1948	39.70	7.00	15.1

Source: *The Survey of Current Business*, July 1947; July 1948; Feb. 1949.

One final effect of rent control on the allocation of resources should be mentioned. Because of disequilibrium in the rental market and inflation in home ownership, families and individuals were hampered in their movement from one area of the country to another, or, in some instances, made such a movement only to improve their housing conditions. There is no way of knowing how much income the nation lost because of immobilities or of the artificial reallocation of the labor force, but that there was a loss seems indisputable. It is true that the difficulty of finding housing has not only reduced desirable movements from job to job but has also reduced much casual and useless moving about. It also should

[9] *The Survey of Current Business*, Feb. 1949.

be noted that mobility was somewhat assisted by employers who provided housing for new workers. But this kind of housing investment is less economic than the kind which would occur in a market in equilibrium. An employer has quite enough to do without undertaking the function of landlord and real estate agent, and if he is forced into both tasks neither will be done as efficiently as it could be.

IV

The analysis of rent control has been quite negative to this point, so much so that some readers may have been left restive if not exasperated. They may very well ask, Granted that rent control has produced a maldistribution of space, that it has subsidized one group in the economy at the expense of another, that it has been of no particular assistance in holding down prices, that it has reduced investment in housing . . . supposing all these things to be true, then what? What follows, it would seem, is that rent controls should be removed. This, admittedly, is not a startling conclusion. Moreover, the policy would not take us much in advance of the housing conditions prevailing before the war. But that condition was one of equilibrium—no slight value in itself—in that the amount of rental space demanded was not in excess of the amount supplied. It cannot be called a free market in the strict sense of the words, because there was, in many large cities, a troublesomely high ratio of vacancies to total space, and there were many restrictions on investment. But the removal of control is the first step toward improving the housing conditions of the economy, as is suggested below.

The immediate (though not the most important) question raised by the proposal to remove control is, How much would rents increase? Any answer must be tentative; but it is possible to make some estimates. The matter can be looked at from the viewpoint of disposable income, and an estimate made of how much more tenants would be willing to spend on rent than they now are spending. Or it can be looked at from the supply side: what is the probable supply price of rental space? From the former viewpoint, we may assume as a beginning that spending on rent would be in the same proportion to disposable income after the removal of rent control as it was in 1941, in which year it was 4.7 per cent. With a disposable income of 190.8 billion (the value for 1948), rental expenditure would be \$8.97 billion. Actual rent expenditure in 1948 was \$5.1 billion. The difference is approximately 76 per cent—which can be taken as a tentative estimate of the short-run increase in rents.

(Figures on rent expenditure after 1948 are not available as this is being written, and so it is impossible to estimate the potential rent expenditure of 1949. It may be observed, however, that in all likelihood rent expenditure now is in larger proportion to disposable income than it was in 1948, because (a) of legal increases in rents; (b) of a somewhat larger quantity of rental space; and (c) of more numerous evasions and violations of the law. This denotes that the short-run increase would be something less than 76 per cent.)

If the accuracy of the actual income and expenditure figures are accepted, the validity of the estimate then turns on two assumptions: (a) the supply of housing is perfectly inelastic and any increase in demand will raise rents in exactly the

same proportion as expenditure increases; and (b) the proportion of rental expenditure to disposable income would be the same in an uncontrolled market as it was in 1941.

The supply of housing is not perfectly inelastic, even over the very short period; as explained above, an increase in rents will bring to the market certain units withheld at lower rents (or simply in opposition to rent control) and will induce owners and tenants to make available a certain portion of their occupied space (spare rooms, etc.). But the removal of control would send rents above their present level by a substantial amount and would most certainly make rental housing an attractive field for investment (assuming no untoward rise in costs occurred simultaneously). As new space was offered for sale, rentals on old housing would have to fall until they were somewhat below the cost of new space, the difference measuring the estimate of the tenant of the value of living in an old as compared to a new house or apartment.[10] Over the longer period, then, rents would be governed by the cost of new construction. Some indication of the cost is given in Table VII, where it is shown that the increase in building costs between 1939 and 1949 was about 78.1 points, from an index value of 110.2 to 188.3, or about 71 per cent. Now if building costs were not to change from the level of July 1949, (which is also the first six-months' average) the long-term level of rents would be something less than 71 per cent above the 1939 average. Some increase in rents already has occurred, and the estimate would have to be adjusted for this. If we accept the Bureau of Labor Statistics rent index, which has increased about 16 per cent between 1939 and July 1949, we conclude with a long-term estimate of something under 50 per cent (47 per cent) above the level of mid-1949. In all probability the index underestimates the increase in actual rents, and therefore the long-term estimate becomes less than 47 per cent above the 1939 level (and the estimate of the short-term increase also becomes less). This may be compared with the rise in the consumer price index, in the same ten-year period, of about 68 per cent.

In order that these estimates be appraised, their assumptions should be made clear.

(1) It has been assumed that the ratio of rent expenditure to disposable income in an uncontrolled market would be about what it was in the last year before

[10] Cf. Ramsay Wood, "Housing Needs and the Housing Market," in *Housing, Social Security, and Public Works, Postwar Economic Studies*, No. 6 (Washington: Board of Governors of the Federal Reserve System, 1946). It is Mr. Wood's contention that a reduction in housing costs can have little effect on the market value of new houses, because the increment to the total quantity supplied in any year is very small in relation to the total quantity. He believes, therefore, that a reduction in housing costs simply becomes capitalized in the market value of new housing. This contention raises some quite detailed considerations (not all of which are examined by him): the degree of competition in the housing market and outside it, the size of the relative increment in the quantity supplied, the geographical distribution of new building, the price level of housing, and the general price level, as well as expectations of the movement of these levels. Their examination is outside the purpose of this paper. It can only be said that, despite the special characteristics of the housing market, the text-book axiom still is true that cost of production determines price in the long run in those industries in which resources are transferable.

control was imposed. This ratio in a free market is influenced by four factors. (a) Its movement from 1929 to 1941 shows a counter-cyclical fluctuation, causing the ratio to vary inversely with disposable income. To the extent that this is the result of fixed rental contracts, it cannot be relevant to the removal of controls because removal would invalidate most leases. To the extent that the inverse relationship indicates fluctuations in income elasticity through the course of the cycle, it must also be ignored, because there is no way of predicting the position of the cycle at the time rent controls are removed. (b) The movement of the ratio between 1929 and 1941 discloses a downward trend, suggesting that there is a long-time decrease in the relative importance of housing in the sum of consumer expenditures. Whatever the trend value was when control was ended would not, however, be of much use in this analysis, even if the value could be

TABLE VII
Building Costs
(1935–39 = 100)

1935	89.1
1936	93.2
1937	109.9
1938	109.5
1939	110.2
1940	113.1
1941	117.9
1942	123.8
1943	127.0
1944	130.2
1945	132.6
1946	146.9
1947 (July)	174.6
1948 (July)	194.8
1949 (July)	188.3

Source: *The Engineering News Record* index of building costs as reported in *The Survey of Current Business* (passim), converted from a 1913 base to a 1935–39 base.

computed. In all likelihood, the conditions obtaining at the time of dismantling control would not be like those prevailing over the trend period. But it must be noted that the actual value used in the computation was taken from the year 1941 at which time the value was the lowest of the entire period before control. If this is believed to be still too high, the estimate for the increase in rents would have to be reduced. (c) The ratio of rent to income depends not only on the cycle and trend movements but also on the spending habits which have developed in the war and post-war years and which may not alter rapidly if rents increase. Consumers may have become quite accustomed to a relatively smaller expenditure on rent, and the removal of control would find them less willing to bring their rent expenditure up to the pre-war ratio. This development would make the short-run increase in rents smaller than has been estimated. (d) Finally, there has been a change in the distribution of incomes since the beginning of the

war period, and the change has reduced the proportion of families at the lowest levels of the income scale. Such studies as have been made of rent expenditure among different income groups indicate that rent relative to income decreases as income increases.[11] This denotes that the redistribution of incomes since 1941 has reduced the potential ratio of rent to income.

There seems to be no way of appraising the net effect of these four factors: cycle, trend, spending habits, and income distribution. They are noted here, not in order that a quantitative adjustment can be made for them, but so that they will not be overlooked.

(2) It has been assumed that rent expenditure is more appropriately measured in relation to disposable income than to consumption. Though it can be argued strongly that budgeting out of consumption is more realistic than budgeting out of income, the argument does not have much force for the problem at hand. What we are concerned with here is the immediate effect on rental expenditure of the removal of control. In such circumstances, it is more reasonable to think that total consumption expenditure will change than that it will remain constant. The usefulness of the rent-consumption ratio is confined to those circumstances in which the propensity to save can be taken as a constant.

(3) The estimate for the long-term increase in rents (somewhat less than 50 per cent) is premised on building costs not rising (or falling) below the level of mid-1949. To appraise such an assumption would carry us into an analysis of the construction industry, its possible technological changes, the practises of the suppliers of building materials, and of the building trades unions, the position taken on these matters by local, state, and federal governments, and, finally, a forecast of the general price level. Such an appraisal would tax the best efforts of a colony of "researchers" and sooth-sayers. At whatever figure they should estimate building costs, this figure would set the upper limit to the long-term level of rents.

The rise in rents which would come of the removal of control would have an effect on consumer prices and on investment in the housing industry and in other industries. The effect on consumer prices is inseparable from the monetary policy (including wage and monopoly policy) which the government follows. In order that the important effects be separated out, let us assume a comparatively stable price and income level, however unrealistic that is. The immediate effect of rent increases then would be some reduction in the demand and prices of durable consumer goods and quite probably a reduction in the savings of tenants, the fall in prices being greater the less was the reduction in savings. The increased spending of landlords would not wholly offset the decreased spending on non-housing items by tenants, because relative savings among the former are probably higher than among the latter. Total savings probably would increase. The freeing of rents would have little effect on the demand and prices of non-durable goods, as these most probably have a low elasticity of substitution with housing. They also have a low elasticity of income, and would not be much affected by the reduction in the real income of tenants which would come of an increase in

[11] See above, n. 4.

rents. Indeed, if one cares to follow the implications of Giffin's paradox, there might be some upward pressure on the prices of such things as food and inexpensive clothing (as well as pressure on the lowest grades of rental housing).

Investment in the housing industry would increase, and there would be greater outlays on rental units designed for medium and low income levels, where the greatest portion of rental expenditure is made, and less on luxury units for rental and on units for sale to occupants. The decline in the demand for durables would produce some reduction in investment in that area. As new rental units were placed on the market in substantial amount, owners of old units would be required to make outlays for repair and decoration if they had not already been forced to by the mere provision of choice to tenants. The increase in construction would exert an upward pressure on costs, especially on wages. However, it is the writer's feeling that the pressure would not be much greater than it has been since 1945; unions have been in the strategic position of having their services wanted for relatively high-priced units and of bargaining with many individual home builders who have not had much experience in such dealings. Moreover, in a free rent market new construction is more apt to be undertaken with non-union labor than at present. The high profits to be made from building would enable the builders to pay higher wages but also would make them impatient with restrictive practises. The final result could be a reduction in labor costs (as distinct from wage rates), such as occurred after the first World War.

As newly constructed units became available in large numbers and as rents on old units declined to something less than rents on new units, there would be another change in relative consumer prices. The downward pressure on durables would be eased as well as any upward pressure on the price of non-durable goods. A new and rather stable disposition of consumer spending would be established, with rent taking a smaller share of income than immediately after the removal of control and a much larger share than at present. Rents in markets which at the present time are free would drop considerably, because their current high level is the result of the pressure created by control over most units.

The assumptions are, obviously, most unrealistic. The last thing one dare expect is stable prices and income. Yet the foregoing remarks are of some use, because they can guide the analysis under more realistic assumptions. If we are to expect a rather continual expansion of the money supply, with prices keeping far enough ahead of costs to prevent unemployment, then the removal of rent control would probably be inflationary in itself, giving a fillip to the general upward movement of prices. This would come through its effect on investment and the competitive bidding for resources which such investment would produce. Since there would be no absolute downward movement of the prices of durable consumer goods, but instead a slower rate of increase, the only way in which resources could be obtained for an expansion of building would be by offering higher prices for them. The long-run effect on consumption and investment of all kinds would be the same as it would be under the assumption of stable prices —a larger share of spending and resources would go to housing—but these results would be secured only through additional inflation. The increase in the price level

would be made even larger if the removal of control brought successful demands for higher union wages. If rent control was removed in a period of inflationary pressure, the amounts by which rents would increase in both the short and long periods would obviously be greater than the figures given above.

If the opposite assumption is made—that prices and incomes are falling when control is removed—the freeing of rents by its effect on investment could retard, if not halt, the deflationary movement. Its power to do this would depend on how far the movement had been allowed to develop at the time control was abolished. But whatever the monetary conditions present, the removal of rent control would produce a relative increase in expenditure on rent and in investment in the housing industry and a relative decrease in other investment.

The freeing of rents would create capital gains for landlords and lower the real income of tenants. It could also create losses in the production and marketing of durable consumer goods. The net gains to landlords would of course be less than their gross gains because the windfall would move them into higher tax brackets.

The way in which the removal of control affected prices, consumption, investment, and the distribution of incomes would depend very much on the manner of dismantling control. A sudden removal of control, whether expected or not, would provoke some quite painful readjustments, the acuteness of which could be diminished by a gradual and announced increase in rents, say by 20 or 30 per cent every four or six months, until equilibrium was restored. Although there would be no exact way of recognizing the moment when quantity supplied and demanded became equal, there would be innumerable indications, one of which would be a desirable ratio of vacancies to total rental space. Rental contracts would have to be limited to the four or six month period in which rents were held constant, in order to make it unprofitable for landlords to withhold space until control had been eliminated completely and in order to prevent tenants from undertaking long-term leases and thus protracting the period of disequilibrium.

Since the establishment of rent control there has been one recurrent note advanced in its justification. In one way or another, it has been contended that equity requires holding down rents because in a free market they would rise so high as to work great injury on the lower income groups of the economy. It is in order that this expression of view on rent control conclude with some notice of the distributive ethics of the matter.

It must be observed at once that if rent control is desirable because it raises the real income of the lower income groups, then price control over other items is also desirable. Indeed, if a choice had to be made, it would be far greater justice to fix *maximum* prices on food (without subsidies paid by the consuming groups) than on rental space. And to do greatest justice, general price control should be reimposed—if, that is, price control is considered a practicable and desirable means of promoting equity (which the writer does not believe).

If the equity of rent control is examined only in itself, it then should be noted that control should be extended to the fixing of maximum prices on owner-occupied units. For there is no good reason to think that all families who own

their housing are better able to afford its cost than families which rent. Moreover, the system of price fixing should be incorporated with a program of rationing space. Merely to fix the price of something at less than the market level does not guarantee that the people who most deserve the service or commodity will secure it. Price fixing without rationing deals the highest cards to those who scramble hardest on the market, who have the least scruples, or who have the best luck. The absence of rationing space has distributed the favors of rent control to such persons and to those who rarely move from place to place; and it has worked hardship on young families and on those who by necessity have had to move from one community to another. All this could be shown very elegantly on indifference curves but the refinement is unnecessary. To contend that rationing of all space —rental and owner-occupied—is next to impossible in a system of private property is to argue less against rationing than against rent control.

Finally, if rent control is to be defended on grounds of equity it must be demonstrated that the gains in the real income of tenants have been greater than the loss in real income to landlords. Even if the marginal gains and losses were comparable, such a demonstration would be impossible, because (a) all tenants are not in the lower income groups and hence all are not entitled, by a scheme of distributive ethics, to the gains they have acquired, and (b) all landlords are not in the upper income groups and hence not all are able, by the same scheme, to bear the burden of control.

It is the writer's feeling that rent control has somewhat reduced inequality. However, the cost of this change, in the form of unfairness, in the curtailment of investment, and in the disorder created by disequilibrium has been far greater than the gain. If the economy genuinely wants more equity, there are any number of better means to this end than rent control. The removal of control and the establishment of a free price system would not solve the housing problem. No free price system ever "solves" any problem in the way a solution is regarded by most persons—the elimination of scarcity. A free market does, however, solve the problem of making the best use of limited means and of maximizing output.

The establishment of such a market is the first step to increasing the amount and quality of housing and of bringing its price into a sensible relationship to other prices. The removal of control is the first step toward a free market in housing, which then should be followed by a sustained effort at removing other obstacles, such as restrictive practises of materials suppliers and of the building trades unions, as the obstructive and archaic building codes and zoning ordinances, and as obsolete methods of construction. The removal of control would in itself weaken some of these obstacles, but their complete elimination would require action by federal, state, and local governments. If it were believed desirable to go beyond this into subsidizing construction, such a program would have the great advantage of proceeding in a clear field.

RECENT DEVELOPMENTS IN THE INVESTMENT TRUST FIELD*

NATHAN BELFER AND ROBERT WEINBERG

I

The managed type of investment trust is relatively new in the United States as compared to Europe. The first record of an investment company is the Société Général de Belgique, founded in Brussels in 1822.[1] The first one in Great Britain was founded in 1863.[2] Great numbers of investment companies were floated in the British Isles in the decade of the 1880's. The Baring failure of 1890 resulted in a setback to this growth but did not stop it. Two further periods of growth for the investment companies occurred during the periods 1904–17 and 1927–29. By 1935, the investment trusts in Great Britain had a capital of £300 million.

The modern investment trust did not make its appearance in the United States until 1893 with the organization of the Boston Personal Property Trust.[3] During the period 1890–1920, however, only a handful of investment trusts were founded in the United States. In the speculative twenties and particularly in the period 1926–29, many new investment companies were founded. The 1929 crash wiped out many of the weaker ones. The principle of the investment trust, however, was sound and the last 20 years have witnessed a phenomenal growth for them in terms of numbers, capital, and shareholders. Today, the investment trusts appear to be on the wave of another great expansion. Numerous brokerage houses, faced with a decline in trading activity, have become salesmen for the open-end investment trusts.[4]

It is well at this point to indicate clearly the distinction between the types of investment trusts that are going to be considered. Wissenberger defines the closed-end investment trust as:

> An investment company with a relatively fixed amount of capital, generally all raised at formation, whose securities are traded on a securities exchange or in the over-the-counter market, in the same way as ordinary corporate securities.[5]

The open-end company he defines as:

> An investment company the shares of which are redeemable at any time at approximate asset value. In most cases new shares are offered for sale continuously at asset value plus a fixed percentage as selling charge.[6]

* Mr. Dudley Cates, Manager of the Mutual Funds Department of Kidder Peabody and Co., was kind enough to read this manuscript and make some helpful suggestions.

[1] S. B. Stevenson, *Investment Company Shares*, p. 1.

[2] *Ibid.*, p. 3.

[3] W. H. Steiner, *Investment Trusts*, p. 43. An interesting account of the development of investment trusts in England, Scotland and the United States is to be found in chapters 2 and 3 of this book.

[4] An article in *Fortune* (Joseph Mindell, "Wall Street Doesn't Sell Stocks," April 1949, p. 79ff.) examines this new tendency in the brokerage business.

[5] Arthur Wiesenberger, *Investment Companies*, 1946 ed., p. 314.

[6] *Ibid.*, p. 315.

The recent purchase of management control of Investor's Diversified Service, the largest investment trust group in the country, by Robert Young through the Alleghany Corporation, spotlights the increasing importance of the investment trusts. The *Investment Dealers Digest* carried a series of 10 articles during the period of Feb. 14, 1949 to Apr. 25, 1949 on the subject of selling shares in mutual investment companies. There are even several companies which sell the shares of open-end mutual investment fund trusts on the installment plan.[7] A new company, Futures, Incorporated, has recently been formed which sells shares on an open-end basis and deals exclusively in commodity futures. In Jan. 1948, the Massachusetts Probate Judges appeared to approve the purchase of open-end investment trust shares by trustees. In the words of Judge Frederick S. Dillon:

> It was the unanimous feeling that the Probate Judges of this state, to keep abreast of the times, should recognize the fact that such purchases are not such a delegation of authority on the part of a trustee as would warrant an objection on that score alone. The judges reserve the right, however, to apply the 'prudent man' rule in every case, and the trustees will be held to the same rigid standard in the purchase of these securities as they would be in making other investments.[8]

This decision may open another new field of expansion for the investment trusts.[9] It is also interesting to note that the state of New Hampshire now permits savings banks within the state to invest in mutual investment funds that have the following features: (1) minimum assets of $10,000,000; (2) a record of having paid dividends in each of the past 10 years; (3) a selling charge not exceeding 7½ per cent. The New Hampshire law also requires that the shares of more than one fund must be purchased and that the investment in any investment fund by a savings bank be limited to 1 per cent of deposits.[10]

The SEC was given comprehensive supervision of investment trusts in 1940. With the passage of the Investment Companies Act of that year, investment companies are obliged to file quarterly reports with the SEC under Section 30(b) (1) of that act. Reliable statistics in the investment trust field thus exist only for the period since 1940. As of Jan. 1, 1948, it was estimated that there were 314 mutual investment trusts distributed as shown in Table 1.

The dollar growth of 37 major closed-end and 87 major open-end funds since 1940 is illustrated by Table 2.

While the 87 open-end funds enjoyed a great growth in the number of shareholders, the 37 closed-end funds actually had a decline in the number of share-

[7] Calvin Bullock is the most recent to set up such a plan (*New York Times*, May 5, 1949). This plan has been used by several trusts, including: Investors Syndicate, Commonwealth Investors, and the First Investors Corporation.

[8] Decision in an account submitted by a trustee for approval. Reported in the *Boston Herald*, Jan. 29, 1948.

[9] A comprehensive examination of the problem of the legal status of investment trusts shares is to be found in A. B. Stevenson, *Shares in Mutual Investment Funds*, Ch. 10; and "The Legal Propriety of Investment by American Fiduciaries in the Shares of Boston Type Open-End Investment Trusts," *Boston University Law Review*, Jan. 1945.

[10] The authors refrain from commenting on the implications of the possibility that mutual investment trusts may start advertising that New Hampshire savings banks are buying their shares.

holders. (See Table 3.) The real growth has occurred in the open-end funds, as is clearly seen by Table 4.

The causes of the great divergences in rates of growth of open-end and closed-end trusts are of interest. The growth of the open-end trusts is the result of mass marketing and advertising. The closed-end trusts cannot sell additional shares; they do not have salesmen. Anyone desiring to acquire shares in a closed-end

TABLE 1

Classification of Investment Companies and Investment Trusts, January 1, 1948

Management Companies without Senior Capital	26
Management Companies with Senior Capital	53
Open-End Management Companies without Senior Capital	86
Open-End Companies with Senior Capital	3
Unclassified Units (Holding Companies, etc.)	48
Fixed and Semi-Fixed Trusts	56
Installment and Paid-Up Investment Plans	37
Face Amount Installment Certificates	5
Total	314*

* Including 24 Canadian Trusts available in the United States.
Source: Moody's Manual, Banks, Insurance, Real Estate, and Investment Trusts 1948.

TABLE 2

Total Net Assets of 124 Investment Trusts, 1940–1948*

YEAR ENDING DECEMBER 31	37 CLOSED END FUNDS		87 OPEN END FUNDS		TOTAL 124 FUNDS
	Total Assets ($000's)	N.C.	Total Assets ($000's)	N.C.	Total Assets ($000's)
1948	744,728	−3%	1,505,762	+7%	2,250,490
1947	771,053	−9%	1,409,165	+7%	2,180,218
1946	851,409	−13%	1,311,108	+3%	2,162,517
1945	970,683	+32%	1,284,185	+45%	2,254,868
1944	739,021	+4%	882,191	+35%	1,621,212
1943	708,683	+27%	653,653	+34%	1,362,336
1942	557,264	+7%	486,850	+21%	1,044,114
1941	523,489	−15%	401,611	−10%	925,100
1940	613,589		447,959		1,061,548

* Including funded debt and bank loans.
Source: Annual Report of the 124 Investment Trusts.

trust can do so only by purchasing such shares through the Stock Exchange from someone who already holds them. The closed-ends also follow the policy of purchasing their shares on the open market when they are selling at a discount from net dollar liquidating value. The dollar growth which has occurred in the closed-ends is due to the increase in the market value of their portfolios.

The open-end trusts, as is well known, do a considerable amount of personal selling and advertising. Most of them have distributors and sponsors. The cost

of this selling job is borne by the purchaser who pays a loading fee (usually 6–9 per cent) in addition to the cost of the securities.[11] For 1947, mutual fund assets in the aggregate increased 7 per cent. Seven funds with assets of more than $20,000,000, however, increased at a much faster rate, as is shown in Table 5.

That a considerable part of the growth of the open-end funds is due to the selling of new shares is borne out by Table 6.

TABLE 3

*Number of Shareholders of 124 Investment Trusts, 1940–1948**

YEAR ENDING DECEMBER 31	37 CLOSED END FUNDS		87 OPEN END FUNDS		TOTAL 124 FUNDS
	Shareholders	N.C.	Shareholders	N.C.	Shareholders
1948	309,087	−3%	722,118	+7%	1,031,205
1947	317,675	−6%	672,543	+16%	990,218
1946	335,323	−9%	580,221	+17%	915,544
1945	367,396	−1%	497,875	+18%	865,271
1944	370,219	−12%	421,675	+23%	791,894
1943	419,316	−4%	341,435	+9%	760,751
1942	436,955	−3%	312,609	+7%	749,564
1941	449,670	−4%	293,251	−1%	742,921
1940	466,144		296,056		762,200

Source: Annual Reports of the 124 Investment Trusts.

TABLE 4

The Growth of the Open End Funds, 1940–1948

(Index Numbers 1940 = 100)

YEAR ENDING DECEMBER 31	TOTAL NET ASSETS		NUMBER OF SHAREHOLDERS	
	37 Closed End Funds	87 Open End Funds	37 Closed End Funds	87 Open End Funds
1948	122	336	66	244
1947	126	315	68	227
1946	139	293	72	197
1945	158	287	78	168
1944	121	197	79	143
1943	116	146	89	115
1942	91	109	94	106
1941	85	89	96	99
1940	100	100	100	100

Source: Annual Reports of the 124 Investment Trusts.

The total dollar growth for the 87 open-ends between 1940 and 1948 was $1,-057,803,000. The net increase due to sales of new shares was $953,172,000. Thus, the presumption is that the growth due to market appreciation was only $104,-

[11] A few open-end funds, Scudder, Stevens & Clark, for example, have neither sponsors nor salesmen. There is no loading fee. It is not permitted to charge a loading fee because of the closed directorate. The purchaser pays the net asset value only. The growth of these open-end funds has been relatively slow.

631,000. This last figure, however, is undoubtedly an underestimate. For tax purposes the open-end funds distribute almost all of their realized capital gains. In 1947 and 1948, for example, 85 open-end trusts distributed $21,775,675 and $15,380,289 respectively from realized capital gains.

TABLE 5

The First Seven Open End Funds in Percentage Growth in 1948

FUND	SPONSOR	YEAR-END ASSETS	% INCREASE DURING '48
Affiliated	Lord, Abbett	$57,222,000*	74%
Wellington	W. L. Morgan	64,094,000	31%
Boston	Vance, Sanders	33,748,000	20%
Eaton & Howard Bal.	Eaton & Howard	37,029,000	18%
Investors Mutual	Investors Syndicate	126,583,000	17%
Fundamental Investors	Hugh W. Long	32,089,000	16%
Putnam	George Putnam	26,711,000	16%

* Excluding bank loans of $18,000,000.
Source: *The Commercial and Financial Chronical*, Feb. 10, 1949.

TABLE 6

Capital Changes 87 Open End Investment Trusts, 1941–1948

YEAR ENDING DECEMBER 31	SALES ($000's)	REPURCHASES ($000's)	NET INCREASE ($000's)
1948	273,787	127,171	146,616
1947	266,924	88,732	178,192
1946	370,353	143,612	226,741
1945	292,359	109,978	182,381
1944	169,228	70,815	98,413
1943	116,062	51,221	64,841
1942	73,140	25,440	47,700
1941	53,312	45,024	8,288
Eight Year Total.....	1,615,165	661,993	953,172

Source: The annual reports of the 87 Investment Trusts.

II

The statistics already presented indicate the great growth which has occurred in the mutual funds field. Now to examine some of the implications of this development. In this article we are not concerned with such technical problems as leverage, dollar-averaging, formula buying and selling, or how the performance of a particular fund compares with the Dow Jones averages, etc. Such matters are more the concern of the professional speculator.[12]

[12] An excellent survey of the technical aspects of investment trusts and their comparative performances and portfolios can be found in *Investment Companies*, issued annually by Arthur Wiesenberger.

The advantages to the general public of increased participation in investment trusts are many. The investor receives broad diversification of holdings, ready marketability, and skilled supervision of his investment, regardless of the size of his holdings. It is thus a much better form of investment for the average individual than scattered, odd-lot purchases. The sale of investment trust shares in small amounts would appear to be an excellent way of interesting factory workers and others who have not been too interested in securities as an outlet for their savings. It would serve as a way of giving even those in the low income brackets a stake in the profitable operation of free business enterprise.

There are some serious problems connected with the public interest in the growth of investment trusts. The phenomenal growth of the trusts represents a mass marketing operation. A survey of the prospectuses of the leading trusts gives the impression that most of the holders of shares own only a small percentage of the fund's outstanding shares. The management in most cases holds only a very small amount of the fund's stock.[13] This raises the thorny problem of the separation of ownership and control. The managers, with only a small personal stake, are in a position to control the use of several billions of dollars of investible funds.[14] Once an investor turns his money over to a trust, he can say nothing about the disposition of his funds. His only form of protest, if he disagrees with the management of the trust, is to redeem his shares. This may be quite costly for him.

There is also the problem of how the managers invest their funds. The purpose of investment trusts may be several: to enhance capital values, to get high rates of return, to invest in "special situations," to provide high leverage, etc. Most funds indicate to the potential investor their primary aims and objectives.[15] There arises the possibility, however, that the managers of the investment trusts may use the large funds at their disposal to advance their own pet projects. That is, the funds may be invested in a manner which best serves their own personal desires. There is the possibility that this may not always coincide with the best interests of the shareholders. The investor is protected, of course, by the Investment Company Act of 1940, and the provisions of the Federal Internal Revenue Code relating to "regulated investment companies" as well as the charter of the trust itself. A review of the acts and the prospectuses of several trusts reveals the following safeguards: (1) No registered investment company shall borrow money unless authorized by a majority vote of the shareholders. If this authori-

[13] State Street Investment Trust is one of a few cases where management has a high personal stake in the company. Here individual managers and their families together own about 14 per cent of the outstanding stock. This may be a factor in State Street Investor's outstanding performance. Shares sell at 15–20 per cent premium over asset value. It is now in effect a closed-end trust.

[14] It is reported that through the Alleghany Corporation, Robert Young purchased management control of Investors Diversified Service for $1,750,000. This investment trust group has combined assets of $580,000,000.

[15] It is of interest to note that one fund, General Capital Corporation of Boston, decided in 1948 to discontinue paying dividends. This was done for tax purposes. Shareholders in this trust are in the same position as if they had received non-taxable dividends which were reinvested in shares.

zation exists it must be stated in the trust's charter and prospectus. (2) No purchase of any securities on margin may be made. (3) No short sales of any security may be effected. (4) No securities shall be purchased that would cause more than 5 per cent of the total assets of the trust (at market value) to be invested in the securities of the issuer. (5) No securities should be purchased that would cause more than 10 per cent of any class of securities of such issuer to be held by the corporation.

The SEC investigation of 1937 into investment trusts was very much concerned that the trusts might overtrade in order to create more brokerage commissions. This possibility still exists today. In order to induce particular brokers to push the sale of shares in their fund, the managers might throw more of their regular brokerage business to them. It is, of course, quite legitimate to give particular brokers business as a stimulus to handle mutual trust shares. The public interest must be safeguarded, however, and the fund managers must make certain that brokerage and other administrative expenses are kept to a minimum. An examination of the activity of five closed-end companies (Adams Express, General American Investors, Lehman Corporation, Selected Industries, and Tri-Continental) indicates that during the five year period from 1941 to 1945, portfolio turnover averaged 43 per cent of net assets annually. Approximately $400,000,000 of securities were turned over by these five trusts in this five year period. Does this represent excessive trading or an excellent anticipation of coming market fluctuations? It is impossible to give a definite answer.

There thus arises the need for trustee-managers whose ability and motives are beyond question. In the past, most professional trustees have had an irreproachable record. The managers of the rapidly growing investment trusts will have to realize their responsibilities to the shareholders and make certain that their activities are in the best interests of all concerned. The wise investor will seek disinterested advice regarding various fund managements from those qualified to distinguish the difference between them.

For brokers the opportunity of promoting investment trusts appears to be heaven-sent. The public has apparently lost interest in Wall Street. Daily trading in the New York Stock Exchange is at the lowest level in years. The sale of investment trust shares provides two sources of income for brokers. Firstly, they receive as a commission part of the load, (usually 6–9 per cent), which is added to the purchase price to the buyer. Secondly, most of the investment trusts will give to the brokerage firm handling their shares an amount of business equal to the dollar value of the sales they have made. In the short run, it would thus appear that the sale of investment trust shares is a boon to the brokerage community. Some of the most prominent and well established firms on the street have entered the business and have set up mutual fund departments. In addition, some firms manage investment trusts and receive the usual ½ of 1 per cent management fee per annum.

It is well to ask, however, whether the brokers may have a bear by the tail. By pushing the shares of mutual investment trusts are they diverting funds which would ordinarily flow into the stock market and on which they would receive the usual brokerage commission? It is true that they receive a commission

on the sale of the mutual fund shares but they receive no commission when the purchaser decides to sell his trust shares back to the trust. On ordinary brokerage business, of course, they receive commissions from both sales and purchases. They will then be forced continually to sell mutual fund shares to maintain a regular flow of income. There then arises the possibility that brokerage firms may become little more than selling agents for the investment trusts. While this contingency seems remote at the moment, those firms which have entered this new field might do well to be aware of the possibility.

Business corporations, too, have a very real interest in the growth of investment trusts. It may represent a threat to an entrenched management. In 29 major American corporations, the investment trusts hold 5 per cent or more of the total of common shares outstanding. In 21 other companies the trusts hold from 1 per cent to 4.9 per cent. In several cases, the trusts hold 20 per cent and more of the outstanding shares.

TABLE 7

Investment Trust Trading as a Percentage of Total Trading on the New York Stock Exchange (Trust Trading of 185 Companies as a percentage of N.Y.S.E. trading in Millions of dollars)*

YEAR	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER	
	Total	Trust	Total	Trust	Total	Trust	Total	Trust
1948	2,503	9.5%	3,912	10.7%	2,184	9.8%	2,632	10.1%
1947	2,632	9.5%	2,233	10.3%	2,122	10.6%	2,727	9.6%
1946	4,739	7.3%	4,081	8.8%	3,614	8.0%	3,126	8.0%
1945	3,357	8.1%	3,418	8.7%	2,558	9.8%	4,141	9.7%
1944	1,959	12.0%	2,149	8.9%	2,027	8.5%	2,219	9.0%
1943	1,824	10.3%	2,407	8.9%	1,759	8.1%	1,682	10.5%
1942	985	8.1%	685	13.2%	715	18.8%	1,289	7.0%

* 86 Closed End Companies.
99 Open End Companies.
Source: Securities and Exchange Commission, *Statistical Bulletins*.

By and large, the investment trusts have not attempted to interfere in the running of a company. If dissatisfied with the management record they could always sell their holdings. The recent Montgomery Ward incident, however, raises a question. As is well known, several of the investment trusts decided to vote their holdings against the Sewell Avery management. A determined group of shareholders, if they combine and secure publicity, may be able to interfere actively in company policy. In England the investment trusts are an important factor in guiding company policy. Will this come about in the United States? It is hard to say at this point. It seems certain, however, that management will have to consider the desires and opinions of the investment trusts in the future.

Finally, we wish to examine the possible effects of the growth of investment trusts on the stock market. It would appear that the activity of investment trusts is of great importance, as indicated by Table 7.

For the past six years, investment trust activity has ranged between 7.3 per cent and 18.8 per cent of total trading on the New York Stock Exchange. On

the average, investment trust trading accounts for approximately 10 per cent of trading on the exchange. When the total market activity is low, the percentage represented by trust trading appears to increase.

With thin markets it is obvious that investment trusts, which now account for about 10 per cent of all activity on the exchange, may have a decisive influence on short-run market fluctuations. It is also well to bear in mind that the floating supply of a given security is usually only a small percentage of the total issue. The trusts may buy up a large part of the floating supply and thus create even thinner markets. Another factor is that the trusts buy only good securities; in general, they avoid the "cats and dogs." Thus the latter may become a drug on the market and witness very sharp and erratic price fluctuations. The volume of purchases and sales by the trusts may be so large a percentage of the total volume that it may be sufficient to tip the market. It seems certain that both upward and downward trends are strengthened and accentuated by the activity of the investment trusts. The disposal of large blocks of Pepsi-Cola, for example, by several investment trusts in 1947–48 was one of the contributing factors to the erratic action of this security. The trusts have been forced to maintain the greatest secrecy in their transactions in order to avoid providing a beacon light for speculators.

III

The great growth of the investment trusts in the last decade embraces a period of rising levels of employment and national income. Individual investors were able to hold on to their shares. What will happen, however, if a recession or business readjustment forces many of the new holders of mutual fund shares to liquidate their holdings? The open-end investment trusts are pledged to redeem shares; they in turn will have to sell securities to raise cash. The securities markets may react violently to such wholesale liquidations. In the early thirties the trusts were forced to repurchase a considerable number of shares from the public. They in turn had to liquidate stocks in the portfolio at the low market prices then prevailing. This resulted in considerable losses for many of the trusts.

The investment trusts have grown large and have attracted hundreds of thousands of new shareholders in recent years. It is to be hoped that the debacle of 1929 is not repeated. There is the possibility that in the event of a major decline in security prices, these new shareholders will be left with pieces of paper much depreciated in value. There may be a new wave of disillusionment with the stock exchange and the investment business similar to that which occurred in the post-1929 era.

The investment trusts and the firms which are actively engaged as salesmen for them are today growing and profiting together. The smaller trusts are far more flexible than the larger ones and can change their portfolios much more quickly in a period of declining market prices.[16] Perhaps it would be well to re-

[16] It is well to note that the balanced fund attempts to maintain a definite proportion of stocks and bonds in its portfolio. As the market rises, a balanced fund will sell common stocks and buy bonds; when the market falls, they will sell their bonds and other defensive issues and buy common stocks and more volatile securities.

evaluate the whole problem of the continued expansion of the open-end trusts. The individual investor is in a position to force the wholesale liquidation of an open-end fund's portfolio by his own desire for liquidity. This may serve to accentuate a downward movement in security prices. On the other hand, the load charge and the regularity of income may lessen an investor's desire to liquidate his holdings and thus act as a stabilizing factor. Disillusionment, if it ever comes, will result in the development of marked antipathy towards investment trusts by the present purchasers of mutual fund shares.

THE COMMUNIST THREAT TO LABOR

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The "cold war" has served to highlight the struggle between communists and business unionists in American trade unions. The latter struggle is an aspect of the former, for the communists constitute a fifth column arm of the Soviet seeking, by control of American trade unions, to enable their use for the benefit of the Soviet state. In view of this threat we must seek answers to these questions: (1) what issues, past and present, have split communist and business union leaders?, (2) what devices, or tactics, have been used in their struggle?, (3) what test, if any, may be employed to recognize the communist labor leaders?, and (4) what may be done to strengthen the hand of the business unionist?

I

The business unionists are interested in a long-run improvement in the share of the product of American industry which is received by American workers, such improvement to be achieved within the capitalistic system. This leads them to partiality for cooperation with industry and against strikes per se, though they will strike when they must in order to achieve their economic objectives. Against them stand the radical labor leaders, interested in overthrowing our existing system, and anxious to use our trade unions for that purpose. Their concept is one which involves strife, and they are partial to strikes for political ends.

This is the nature of the conflict. It is a struggle over the type of economic system under which men shall wring their daily bread from the earth. The contest is fought relentlessly and influences the course of collective bargaining daily. Its record is written large in the press. It is a battle of villification and violence, of ballots and blood. Yet, it is oftentimes a subtle battle, a war hidden beneath surface issues.

II

A discussion of "past" issues does not deal with controversial matters long since settled. To the contrary, this discussion is concerned with issues which are still alive, but which had their origin in past decades and on which time has shed considerable light. During the march of the years, two issues have stood out starkly and illuminated the division between business and radical labor leaders. These issues were *amalgamation* and *political activity*.

Amalgamation means industrial unionism as against craft unionism. Amidst the collapse of the Knights of Labor in the late 19th century, the AF of L rose to become the collossus of craft unionism. In that period of immigration waves beating against the shores of the United States, the common laborers of many mass production industries were recent arrivals. They represented different racial, linguistic, and cultural groups. And all of them stood apart from the native born

worker. This diversification and fragmentation among the workers of the country made it difficult, if not impossible, to bind them together in mass industrial unions that would hold together successfully under the stress of industrial conflict. It was much too easy to set group against group. This recognition permeated the thinking of the early leadership of the AF of L. Gompers believed that only tightly knit, homogeneous groups of workers, cemented by identity of craft, raised above the common level by virtue of skill, could have the unity of purpose and tenacity to successfully endure economic conflict.

But craft unionism, involving as it does fragmentation of the working class into smaller and oftentimes competing groups, does not increase the effectiveness of trade unions as agencies for spearheading the revolution so dear to the hearts of the radical labor leaders. These leaders, thinking and dreaming in terms of class conflict, envisioned the unions as massed armies of the class struggle. For this purpose, craft unions were strategically limited. Therefore, the cry of the radical labor leader, for organizing the unskilled masses in the mass production industries, was logical. It also involved conflict with the leaders of craft unions, whose jurisdictions and vested interests were threatened.

Because of the enormous practical difficulties involved, and due to the interests of entrenched craft union leaders, the principle of amalgamation was long and arduously contested. But with the passage of time, basic conditions changed. Following the first World War, restrictive legal bars were thrown across the path of eager, would-be immigrants. Gradually, the composition of the working force of the United States changed as a result. New immigrants diminished in importance. The unskilled workers of the mass production industries became more homogeneous, more of the American amalgam, speaking one language and educated in American schools. Their organization became practical.

At the same time, the principle of amalgamation was demonstrated as being of great importance to non-radical labor unions, which embodied the idea of industrial unionism, such as the United Mine Workers, the Amalgamated Clothing Workers and the International Ladies Garment Workers Union. Their leaders grasped the importance of industrial unionism for increasing the power of the labor movement. Lewis, Hillman, Dubinsky, and others saw that industrial unions would increase the ability of the unions to achieve economic objectives. At the same time they rejected the idea of using this increased power for the political purpose of overthrowing the capitalistic system. The New Deal provided the opportunity for them to apply industrial unionism in the mass production industries. This resulted in the famous schism of the AF of L which resulted in the birth of the CIO. During the flux of this schism business unionists were pitted against business unionists, with radical labor leaders jumping *en masse* into the camp of those business unionists dedicated to the spread of industrial unionism. Generally, the leaders of more narrowly craft unions, like Tobin's Teamsters or Hutchinson's Carpenters and Joiners, faced a greater threat to their positions than did the leaders of such industrial unions as those previously noted. The former reacted by arranging the expulsion of most of the unions which originally constituted the CIO.

However, we must not be misled into the false belief that the issue of craft versus industrial unionism explains the continued existence of the CIO apart from the AF of L. *The simple fact is that this is no longer an issue of great practical significance, for the principle of industrial unionism has permeated the AF of L while many CIO unions embody the principle of craft unionism.* Daily they grow more alike structurally. As Herbert Harris accurately remarked: "... the real point at issue was no longer craft versus industrial organization, but rather the discovery of a satisfactory method for redistributing powers, prerogatives, and prestige among the individuals most directly concerned."[1]

The issue of craft versus industrial unionism did, however, provide the radical union leaders their best opportunity to date for infiltrating the American labor movement and obtaining positions of power and prestige. Lewis, as head of the newly created CIO, entered into an alliance with the leftists. He needed experienced organizers, and the radicals were in a position to provide them. No doubt he believed he could control them as he had for so many years in his own United Mine Workers. In this he was wrong. The struggle between business unionists and radical unionists in the CIO has been a shifting one, with the edge today seeming to lie definitely on the side of the business unionists.

The struggle started shortly after the formation of the CIO, for the radicals did not wait too long before inaugurating their attempts to use the CIO for their own political objectives. *And this brings us to the second basic issue which has separated radical and business unionists, that concerning political activity.*

For a long time this issue seemed to involve the question of whether or not trade unions should engage in any political action aimed at influencing the election and actions of governmental officials. During Gomper's long leadership of the AF of L, it seemed often that that organization completely eschewed any political activity. In fact, it is far more accurate to describe the attitude of Gompers and his fellow business unionists as being one of concentration upon economic issues, but not to the complete exclusion of political activities. The AF of L, and its leaders, never completely removed themselves from the political arena.[2]

The real issue with regard to political activity by trade unionists has not been so much whether or not to participate, but to what end or objective such participation should be employed. When we turn our thinking in this direction we obtain a clearer picture of trade union conflicts over engaging in political activity. *The socialists of the 1890's were, and the communists of today are, interested in trade union involvement in politics for a specific purpose, the overthrow of our present economic system.* Since the two major political parties in the United States are not likely to undertake a program along such lines, the interest of radical unionists in third parties becomes understandable. They are hoping for a third party with a revolutionary bias, yet having within itself the seeds of possible victory. The latter requirement goes far to explain their further interest in farmer-labor parties, for the two in combination could achieve victory under conditions auspicious to radical hopes.

[1] Herbert Harris, *Labor's Civil War*, p. 228.

[2] See David J. Saposs, *Left Wing Unionism*, p. 21.

This is not the brand of involvement in political activity which is to the business unionist's taste. His interest in political action is based upon a realization, more alive in some leaders than in others, that such action is important to the ability of trade unions to achieve economic objectives within the framework of capitalism. Generally, therefore, he believes that he can barter labor's support for the friendship of one of the major political parties. The New Deal, based upon a close alliance between the Democratic Party and organized labor, is a good example of what the business unionist has in mind when he is thinking of political activity. He has in mind labor's vote being exchanged for a National Labor Relations Act, a Norris-LaGuardia Act, a Fair Labor Standards Act. He does not have in mind labor's vote being exchanged for government expropriation of private property. *He does not have in mind labor involvement in politics, and labor judgment of politicians, on the basis of what is desired by the Soviet Union. The last two, by contrast, are primary criteria for the radical unionist.*

Despite these marked differences between business unionists and radicals when it comes to political activity, it is not always easy to distinguish the one from the other by reference to the stand they take with regard to questions like a third party, or working with one of the major existing parties. The radicals are extremely devious in their methods, and shift position without hesitation so long as each shift is believed to help things move in the direction of the "inevitable" revolutionary cataclysm. Thus, during the New Deal period they attached themselves to the Democratic Party. In 1948 they severed that attachment in favor of one with the Progressive Party.

Likewise, there are business unionists who have favored a third part of labor, like David Dubinsky of the International Ladies Garment Workers Union. The purpose of such leaders, however, is consistent with their business unionism. They are opposed to using such a party for radical purposes. Thus, prior to the formation of the present Progressive Party, Dubinsky declared himself in favor of a third party of labor. He made this declaration to a convention of the United Hatters, Cap and Millinery Workers International Union. Yet he opposed the Progressive Party, which attempted to represent itself as the party of labor. Why? Because Dubinsky is a business unionist and he, and fellow labor leaders of his belief, recognized that the new party had been captured by the radicals. *Thus, adherence or opposition to a third party of labor is not an issue which can serve as the touchstone distinguishing business unionists from radical unionists. There is such a touchstone, and it has been noted already. It is the reaction of American unionists to questions which involve the Soviet Union and its interests.* Though there have been periods when both business unionists and radical unionists were in accord on such questions, corresponding roughly to periods when the United States and the Soviet Union were in an amicable relationship, they eventually split when the relationship between the two nations cools, as at present.

Such a split is inevitable because of the conflicting aims of the political action of business unionists and radical unionists. The Soviet Union represents an accomplished workers' state to the radical American unionist. He feels a closer kinship to that state than he does to the capitalistic United States. He enters into an alliance with that state easily in his efforts to achieve the overthrow of

capitalism in the United States. The opposite is true of the business unionist.

We noted previously that the formation of the CIO provided the radical unionists with a rare opportunity to infiltrate American trade unions on a large scale and achieve power therein. They did this in line with their policy of "boring from within." This policy will be discussed in greater detail in the section dealing with tactics. What needs to be understood here is that this infiltration is responsible for making the CIO today the cockpit of the struggle between business unionists and radical unionists for control of a number of American trade unions.

The first loyalty of the radical has been, and remains, to the Soviet Union and not to the CIO and Lewis, or presently Murray. They are more interested in the "party line" than in the immediate welfare of the American worker. Thus, in the early days of the CIO the resolutions in union meetings supporting the Spanish Loyalists, the efforts to get American workers to boycott Japanese goods, the sale of *Fight* (organ of the League Against War and Fascism) in union halls, the injection of issues of "collective security," the isolationist and anti-defense program position taken following the Hitler-Stalin pact of 1939, and the pressure for a second front following the 1941 invasion of the Soviet Union by the Nazis.

Since the war's end, the rallying point of much leftist activity has been—unity. They have talked unity, but they have split with all those business unionists who have gagged at a unity designed to support the hand of the Soviet Union. Since the end of hostilities there have been at least three such issues which have rent the unity of labor's ranks. These issues are: the World Federation of Trade Unions, the European Recovery Plan and the Progressive Party. Each of the three has overlapped.

III

1. *The WFTU.* This is an international organization composed of affiliated national trade union centers, such as the CIO in the United States. Organizational activity began with a world wide conference of trade unions which met in London in June 1944. Immediately, American union conventions became the scene of much activity by radical labor leaders aimed at achieving the affiliation of their organizations with it. They were successful in the CIO, where their influence was strong. They were unsuccessful in the AF of L, but not without putting up a struggle. Initially the fight was over whether or not representatives should be sent to the exploratory international conference at London. The AF of L had decided not to send any representatives. This decision was based upon the long term federation policy of non-cooperation with any international labor organization which included representation of Soviet trade unions. The reason was simple. The federation leaders maintained that Soviet trade unions were instruments of the state, and did not represent a labor movement capable of independent action. Therefore, the leaders of the federation believed that Soviet representation in such an international labor body would mean an attempt by the Soviet Union, sooner or later, to employ the international body for its own purposes via the representatives of its trade unions. As we shall see the leaders of the AF of L have been proven right in this instance.

When the occasion arose, the Soviet Union did attempt to use the WFTU for its own political purposes. That occasion was presented with the introduction of the European Recovery Plan, which Russia is resisting with every ounce of energy at her command. The details of the struggle were reported in the August 1948 issue of the *Monthly Labor Review*. Generally, the situation appears to have crystallized as follows: the Communists controlled the executive machinery of the WFTU through French Communist Louis Saillant, who served as its general secretary.[3] He launched vitriolic attacks against the ERP, in the name of the WFTU and through its agencies. These attacks brought a violent reaction from the affiliated trade union centers of the western democratic nations. They moved to have Saillant's power curbed and appeared successful. Their success was short-lived, however, and the denouement came with the withdrawal of the CIO and the British Trade Union Congress from the WFTU, which thus remains essentially a communist-dominated organization.

The withdrawal of these powerful trade union groups from the WFTU has resulted finally in the creation of a new international trade union body, the International Confederation of Free Trade Unions. In marked contrast with the meeting held in London in 1945 to form the WFTU, the delegates to the new global labor federation drew a distinct membership line. Affiliates of the communist-dominated WFTU were excluded, and trade unions behind the iron curtain were challenged to prove to the world that they are not government puppets. The organizational conference, meeting in the same London hall where the WFTU was born, welcomed warmly the unity of AF of L and CIO in the gathering. Both organizations sent strong delegations. William Green, George Meany, David Dubinsky, Mathew Woll, George Harrison, Charles MacGowan, Irving Brown, and Henry Rutz represented the AF of L. Walter Reuther, L. S. Buckmaster, Allan Haywood, Martin Kyne, William Pollock, David McDonald, Michael Ross, and Elmer Cope represented the CIO. These outstanding American trade unionists assumed a leading role in the newly formed ICFTU. Actually, this leadership has been thrust upon American labor by the iron logic of events, just as leadership in international affairs has been forced upon the United States. *Parenthetically, the ICFTU represents a new area of CIO-AF of L unity and co-operation. It may, therefore, have long-run repercussions in domestic union relations.*[4]

The Germans, who played a great role in world labor prior to 1932, are part of a defeated nation, and face difficult internal problems such as the role to be played in their own nation. The French and Italian unions which have joined the ICFTU are minorities in their own countries. The communists, although their power is declining, still hold the key positions numerically and in terms of the strategic industries where they are strong.[5] The small democracies of Europe can supply able administrators, like J. H. Oldenbroek, the first General Secretary, but not the drive which will be needed. In underdeveloped areas, like India,

[3] See *Monthly Labor Review*, Aug. 1948, pp. 147–150 and Jan. 1946, pp. 48–52.
[4] *The New Leader*, Dec. 3, 1949, p. 1.
[5] *The New Leader*, Dec. 17, 1949, p. 1, and Dec. 24, 1949, p. 1.

trade unions are still in a seminal stage of development. The British union leaders suffer in comparison with the American leaders as a result of the responsibility which they share for their nation's labor government. The British leaders cannot be so free in their statements of objectives as can their American brethren.

There is no blinking the prospect facing the new organization. The Soviet spearhead in the WFTU will wage a bitter battle around the world for the allegiance of working men and women. The apparatus in the Soviet-dominated labor body has its tentacles already imbedded in many areas, notably the former colonial sectors.[6]

It is apparent that the next few years will mark a repetition of the bitter struggle in the late twenties and early thirties when the International Federation of Trade Unions became the target of the Red Trade Union International. The WFTU will undoubtedly repeat the earlier tactics of denouncing the ICFTU as "wreckers" and "splitters."

The Inter-union war is based on fundamentals. The Soviet commitment to destroy the Marshall Plan and to force a decision between West and East, made the London meeting a logical stepping stone to creation of what is hoped to be the most powerful international labor organization in history. The ICFTU acted immediately by declaring its support of the Marshall Plan.

The moment was well chosen. The WFTU has a headstart in Asiatic and other areas where millions have never experienced trade unionism. These millions are being urged to act on Soviet policies presented skillfully by Moscow graduates.

Offsetting the Soviet advantage, however, is the psychological effect of the policies inherent in a free democratic trade union organization committed to the exposure of totalitarianism in all its forms and the economic advancement of free workers in a world community dedicated to peaceful reconstruction.

The leading role of the CIO in the attack upon communist domination of the WFTU was significant. It reflected the internal struggle in the CIO, which is being won by the business unionists. James B. Carey, for example, became secretary-treasurer of the CIO when he left the presidency of the United Electrical Workers due to radical opposition. He has made no secret of his beliefs in this matter. On September 2, 1948 he charged president Albert J. Fitzgerald, secretary-treasurer Julius Emspak, and organizational-director James Matles of the UEW with sacrificing "the interests of the union to promote the foreign policy of the Soviet Union." This charge was made before a House Labor Subcommittee headed by Representative Kersten of Wisconsin. With such a bitter conflict between Carey and Fitzgerald, it is most important that the former was given a high post in the top command of the CIO after yielding to Fitzgerald's strength in the UEW. Carey is still fighting to eliminate Fitzgerald and his cohorts from the UEW leadership. This conflict has resulted in the present ejection of the UEW from the CIO, and the latter's chartering of a new electrical union headed by Carey.

Fitzgerald was co-chairman of the Progressive Party, which is opposed to the European Recovery Program as an anti-Russian device calculated to destroy the possibility of peaceful relations among the nations of the world. It is, therefore,

[6] *The New Leader*, Dec. 3, 1949, p. 1.

significant that the CIO led in the attack on the Russian domination of the WFTU over the specific issue of the Marshall Plan. It is of greater significance that it found itself working with the AF of L in the course of the developments produced by this attack. It leads to the conclusion that the fight against radicals in American trade unions is one of the forces bringing the CIO and AF of L together, with all that such common action might imply.

2. *The European Recovery Plan.* It has just been seen that the Marshall Plan provoked a major controversy within the WFTU. It has provoked intense controversy as well within American trade unions, particularly those affiliated with the CIO and having strong communist elements. This is probably the case because it represents a good issue. The business unionists of the CIO did not challenge vigorously affiliation with the World Federation of Trade Unions, since to have done so would have opened them to attack from the leftists as proponents of disunity. Instead they have bided their time in order to pick the issues over which the leftists have the weakest case as American labor leaders before American workers. ERP is such an issue.

We are not interested here primarily in the Marshall Plan per se. Our interest is in its effects upon the struggle between radicals and business unionists. The plan represents a major development in the growing contest between the United States and the Soviet Union. It is a vital force in stopping the post-war spread of the latter nation over Europe. It does so by means of undertaking the post-war rehabilitation of the nations of western Europe which had not yet fallen under Russian domination by mid-1947. It is a powerful economic lever, affecting the stomachs of people, on the theory that a contented people with hope for the future do not provide an atmosphere in which radicalism can flourish. The correctness of this view is attested by the energy and near desperation with which the Soviet Union has contested it at every point. One arm of the Soviet's fight against the ERP is, of course, the communists in the United States, particularly those in positions of power and influence in American trade unions.

The idea is for radical American labor leaders to use their unions as a lever through which to exert political pressure within the United States aimed at the abandonment of the Marshall Plan. Since the plan has been built up as the major force it is in containing Russia, opposition to it comes close to lack of patriotism to the United States. That is why it is so excellent an issue for the business unionists to employ in their attack on radical labor leaders.

Evidence abounds on the importance of this issue in the struggle between right and left wing union leaders. It was one of the basic elements, with the Progressive Party, which tore the Greater New York CIO Council asunder. The summer of 1948 was marked by a march of local CIO unions out of the Greater New York Council. This exodus was accompanied by charges of "red" domination of the council, principally directed against its secretary, Saul Mills. The fight against the city council was led by Louis Hollander, president of the New York State CIO Council. The struggle was intense and revolved around the city council's refusal to abide by national CIO policy with respect to supporting the Marshall Plan and opposing the Progressive Party.

The radical versus business unionists' struggle within the CIO is not limited

to city councils, state councils, and the national executive. It is being waged continuously within each affiliated international union, and, further, within individual locals of each international. It is a merciless struggle running through the entire framework of the organization like an electric shock.

3. *Progressive Party*. The Communist Party in the United States has a long record of failure at the polls. Consequently, it has been the desire of the communists to create a third party which would not bear their clearly recognizable stamp, yet would offer them the opportunity for behind-the-scenes control. The Progressive Party "filled the bill."

Its origins really lie in the machinations of a small pro-communist group starting in the CIO's Political Action Committee. Sidney Hillman had led the formation of this group in order to make labor's influence felt more decisively in the Democratic Party. The radicals, however, really hoped for an opportunity to create the third party of their dreams. After Sidney Hillman's death they began to act. They planned the September 1946 rally at Madison Square Garden. New York City, at which Henry Wallace denounced the foreign policy of the United States. Since Wallace was at the time a member of the President's cabinet, his continuance in that position became impossible. With his departure from the cabinet he fell into the arms of the pro-communist groups. They greeted him with fond embraces, for in him they had a public figure of considerable stature.

In the summer of 1946 he had ridiculed the formation of a third party as a useless political gesture. In December 1947 he accepted the third party candidacy when it was formally proposed to him by the Progressive Citizens of America. The PCA had started as a group containing genuine liberal elements. As soon as its true character was revealed, however, many former adherents abandoned it. Its co-chairman, Frank Kingdon, resigned and issued a public statement to the effect that the communists had succeeded in seizing control of the PCA.

Thus, the election year of 1948 found labor, long in politics, facing the reality of the Progressive Party, and torn apart because of it. The basic reason was simple. If the communists did not dominate the Progressive Party they at least had such great influence in it that they were willing to risk anything in its support. The Communist Party openly claimed credit for its creation. Further, the Communist Party endorsed the ticket of the Progressive Party and did not run one of its own in 1948. All this made it certain that the Progressive Party could not hope to win the election of 1948.

The simple realism involved in the fact that Henry Wallace could not be elected in 1948, meant that support of him by labor might result in legislative revenge by the victorious major party. The business unionists were fully aware of this. To protect the economic interests of their members, as well as their own positions, they felt that under the conditions of 1948 they would do best to recement their old alliance with the Democratic Party. This alliance was, however, no longer suitable to communists in labor circles, for the Democratic Party was led by Harry Truman, who was responsible for the Truman Doctrine and for supporting the Marshall Plan of his Secretary of State. If Russia is the friend of the American leftists, Truman must be as much their enemy as any Republican.

Not limited by concern over the immediate welfare of the rank and file membership of American trade unions, the leftists were prepared to fight for Wallace because it fitted their long range political plans. It was also a substantial aid to the Soviet Union. The influence of the communist element in the United States was inflated out of all proportion to their actual numbers through the appeal and stature of Henry Wallace.

In January 1948 the CIO's executive board voted 33 to 11 to oppose a third political party. On August 31st the board endorsed the Truman-Barkley ticket by a vote of 35 to 12. In both cases the minority vote represented support for the Progressive Party. It indicated the strength of the radical element in the CIO.

The Progressive Party was not as serious an issue in the AF of L as in the CIO. The 1948 political campaign found the leadership of the federation almost solidly behind the Democratic ticket. Though this was the practical situation, the AF of L avoided an official endorsement by itself, or its political arm, Labor's League for Political Education. The practical endorsement of the Democratic ticket was achieved through the establishment of a special committee, called the Committee of Labor Executives for the re-election of Truman. Nearly all AF of L leaders joined the Committee.

The above resume of the 1948 presidential campaign, and labor's alignment in it, leads to a significant observation. The business unionists of the United States were almost solidly lined up with the Democratic Party, while radical unionists were supporting Henry Wallace and his Progressive Party. The role of labor in the political campaign drew business unionists in the AF of L and in the CIO into the most intimate sort of cooperation. This was even truer at the topmost level. As Joseph Loftus remarked in an article for the *New York Times*[7] "Perhaps the mutual political needs of labor's houses will prove the key to unity." This may well be of greater long run importance for the labor and political history of the United States than the issue of which individual candidate won in 1948.

IV

Every conceivable type of political device is employed by both business unionists and radicals in their unending contest for the control of American trade unions.

1. *Machine Control.* Both sides employ every device of machine politics, viz: patronage to the supporters of the group in power, suspension and expulsion, machine domination of conventions (through the power of the chair to rule, the use of violence, packing the convention, careful choice of the convention time and site so that it is difficult and expensive for delegates to attend, cutting down on the frequency of conventions, turning the convention into a "pleasure junket," fraudulent counting of ballots, the political use of taxes and assessments, bribery, and superior knowledge of parliamentary procedure used to confuse any opposition), use of labor journals to support the group in power, amending the constitution so as to concentrate power, discrimination among membership

[7] *New York Times*, Aug. 29, 1948.

(setting up second-class or auxiliary locals with only limited rights), political use of financial strength, etc.

2. *Non-Communist Affidavits.* Section 9 (h) of the Taft-Hartley Act refuses its protection, and the use of the facilities provided by it, such as the National Labor Relations Board, to unions "unless there is on file with the Board an affidavit executed contemporaneously or within the preceding twelve-month period by each officer of such labor organization and the officers of any national or international labor organization of which it is an affiliate or constituent unit that he is not a member of the Communist party or affiliated with such party, and that he does not believe in, and is not a member of or supports any organization that believes in or teaches, the overthrow of the United States Government by force or by any illegal or unconstitutional methods. The provisions of section 35 A of the Criminal Code shall be applicable in respect to such affidavits."

This provision is aimed specifically at radical labor leaders. Its purpose is obvious. If communist labor leaders sign the required affidavits they are committing an act which leaves them open to prosecution on charges of perjury. Conviction on such charges would, of course, be punished severely so that such leaders would be eliminated from their positions. Refusal to sign and file the required affidavits means that the unions led by the recalcitrant leaders lose all rights under the law, and are open to all sorts of maneuvers by employers and competing union leaders. Power to fight such maneuvers is severely curtailed by loss of privileges and rights due to the refusal to abide by Section 9 (h) of the Taft-Hartley Act. Consequently, 1948 was a time of increasingly severe attacks upon unions led by officers who had refused to comply with Section 9 (h). These attacks were successful in considerable degree.

Thus, the observer is treated to an amazing spectacle. All labor leaders, business unionists and radicals alike, have declared themselves to be in open warfare against the Taft-Hartley Act. Yet that law is proving a most powerful weapon in the hands of the business unionists against the radicals. And the former are taking increasing advantage of failure to comply with section 9 (h) by radical labor leaders.

3. *Congressional Investigation.* The hand of the business unionists was made more powerful as a consequence of highly publicized hearings on the part of the Labor Committee of the House of Representatives.

In announcing the hearings, Representative Fred Hartley, chairman of the committee and co-author of the Taft-Hartley Act, plainly stated that one purpose of the hearings was to make a target of employers who had not had "the guts" to resist the pressure of radical unionists who were trying to obtain union security provisions (contract sections granting the equivalent of a closed shop) during collective bargaining, and who had not signed the non-communist affidavits called for in the law.[8]

These hearings intensified the pressure against union leaders refusing to sign non-communist affidavits. Business unionists were encouraged to attack leftist

[8] *New York Times*, June 24, 1948.

dominated unions. Mr. Stark remarked:[9] "The result is that these unions are, in the words of a Labor Board official, 'taking an awful beating.' The NLRB will not allow them to have a place on a ballot for collective bargaining representatives and this has meant the loss of important contracts to their rivals. Nor will the board investigate complaints by non-complying unions. The result is that such organizations cannot 'service' members who may be discharged without cause." In short, government power was working actively on the side of the business unionists.

4. *Raiding*. This tactic involves the attempt of one union to move into areas controlled by a competing organization. One union may raid another in various ways. Thus, the raiding union may seek to get entire locals to switch their affiliation. Or, the raiding union, having filed the non-communist affidavits required by section 9 (h) of the Taft-Hartley Act, may petition the NLRB for an election to certify them as the collective bargaining agent for the workers of a particular company. In this connection, the raiding union might collaborate with employers. In such cases, the employers would refuse to bargain collectively with unions whose officers had not signed non-communist affidavits. Such refusal would strengthen the hand of the raiding union.

5. *Manipulation of Demands during Collective Bargaining*. Despite the advice of William Z. Foster that "it is no sign of good leadership to put forth as immediate demands propositions outside of the realms of possible achievement under existing conditions,"[10] radical leaders have frequently employed excessive demands as a lever for winning rank and file support away from business unionists.

6. *Manipulation of Jurisdiction*. Both business unionists and radical labor leaders may employ this device to lessen the influence of their opponents within an international. One very effective way of fighting is to refuse the opposition any extension of their jurisdiction over the rank and file. In this connection, we must note the action of the CIO in ordering leftist dominated unions, like the Farm Equipment Workers, to merge with loyal unions, like the United Automobile Workers.

7. *Union Security Provisions in Collective Bargaining Agreements*. The power of union leaders over hiring and firing, which is part of closed shop agreements, can be employed with devastating effectiveness against any incipient opposition elements within the union. Since the Taft-Hartley Act makes serious inroads into this authority of union leaders, we can see one basic reason for the opposition of all labor leaders to it. The threat is much more serious in the case of radical unions, whose leaders have not signed non-communist affidavits.

8. *Boring from Within*. Boring from within involves the general overall strategy of the communists for seizing control over American trade unions. This strategy may call for a whole host of devices or tactics, many of which have already been discussed. No discussion of the struggle between business unionists and radicals

[9] *New York Times*, Sept. 5, 1948.

[10] W. Z. Foster, *Strike Strategy*, Trade Union Educational League, 1926, Labor Herald Library, No. 18, p. 31 *et seq*.

for control of our trade unions could pretend to adequateness without noting it. The idea behind "boring from within" is for radicals to enter existing unions, which are presumably of the business union type, gain control over them, and then use them for the particular political purposes and objectives to which the communists are committed. This strategy was adopted by the radicals after they had suffered a long series of failures in their attempts to build up openly radical unions in competition with business unions. Gaining nothing with dual unionism, the leftists decided that the cleverer approach would be to move into business unions, parade as business unionists, and gradually steer rank and file toward communist political objectives. The formation of the CIO was their great opportunity, and they seized it.[11]

V

The analysis has revealed some tentative criteria which may be applied in determining whether or not a labor leader is in the radical camp. The criteria are: (1) belief in the complete overthrow of our existing economic system; and, (2) adherence to the policies of the Soviet Union. Of the two, the latter is of greater practical importance, for the true leftist will always follow the policy line, while he may vehemently disclaim the basic objective of overthrowing our existing system. Further, we have seen at least three questions on which radical labor leaders, following Soviet policy, have split with business unionists. These questions are: (1) the WFTU, (2) the ERP, and (3) the Progressive Party. In each instance, the radical labor leaders have supported the WFTU, opposed the ERP and upheld the Progressive Party.

[11] CIO attacks on Communists are threatening currently to drive the radicals back to their earlier attempt to create a radical dual labor movement in the United States. The UEW could serve as the core of a new radical labor federation.

KENTUCKY'S RECENT INCOME TAX EXPERIENCE

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Despite rising federal income tax rates, verging on pre-emption of the income tax field during the war years,[1] state governments have been able to report a gradual increase in personal and corporate income tax revenue since 1933. State income from this source has risen from $153 million in 1932 to $1,084 million in 1948. The income tax has bettered its position in relation to all other state taxes. In 1932 income tax collections contributed 8 per cent of the total state tax revenue; by 1948 personal and corporate income taxes provided 14 per cent of total state tax revenue (including the unemployment compensation tax). A partial explanation for the increase in revenue derived from income taxation is the fact that 13 states adopted personal or corporate income taxation or both between 1933 and 1938.[2]

The steady growth of the national income since 1933, however, is primarily responsible for the advance in state income tax collections. It is against this background of rising national income that the comparatively insignificant role of the state income tax and the growing federal domination of the income tax field are most sharply revealed. (See Chart 2.) Any analysis, therefore, of recent trends of state income tax revenue must of necessity take into account the relationship to the federal income tax. In striking contrast to federal income tax experience the increase in state income tax since 1933 has barely kept pace with the growth of the national income. In fact, from 1942 to 1945 state income tax collections declined in relation to national income payments.

Downward revisions of the personal income tax contributed to this relative decline of state income tax revenue. Confronted with treasury surpluses during the war, several state legislatures acceded to demands for tax relief in view of the mounting federal income tax rates. New York led the way with a 25 per cent personal income tax reduction in 1942. West Virginia and South Dakota repealed their personal income tax laws in 1943. In the same year the Wisconsin state legislature failed to extend the temporary 60 per cent surtax on individual income; California and Oregon reduced personal rates substantially; and Iowa and Maryland decreased the taxpayer's liability by granting liberal tax credits.[3]

[1] The maximum wartime federal rates on personal income ranged from 20 per cent on the first $2,000 of surtax net income to 91 per cent on the portion of surtax net income in excess of $200,000. Personal exemptions were cut to $500 per person. Since 1945 Congress has repealed the corporate excess profits tax, reduced personal and corporation income tax rates, and raised personal exemptions. Note Chart 1, showing the place of income taxation in the total revenue system.

[2] Thirty-one states tax individual or corporate income or both in 1949.

[3] For further details, see Federation of Tax Administrators, *Significant Changes in State Personal Income Tax Legislation—1943*, Research Memorandum 226.

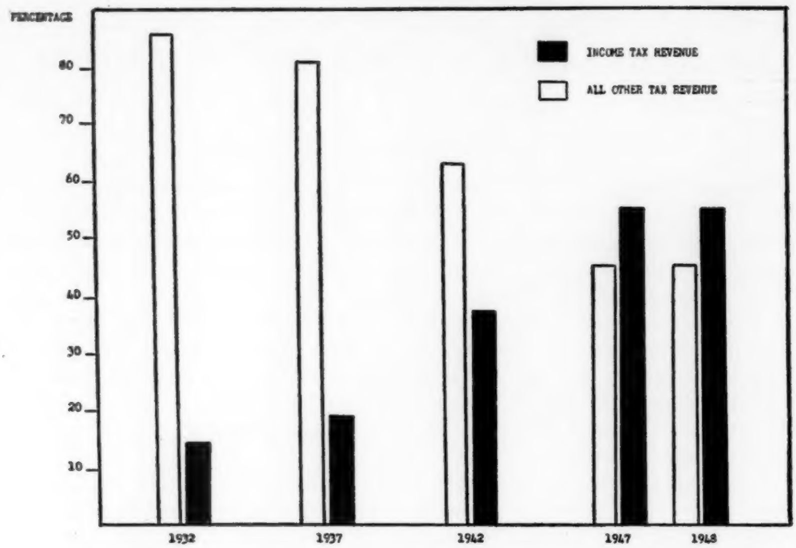

CHART 1. RELATION OF TOTAL INCOME TAX REVENUE TO TOTAL GOVERNMENTAL TAX REVENUE

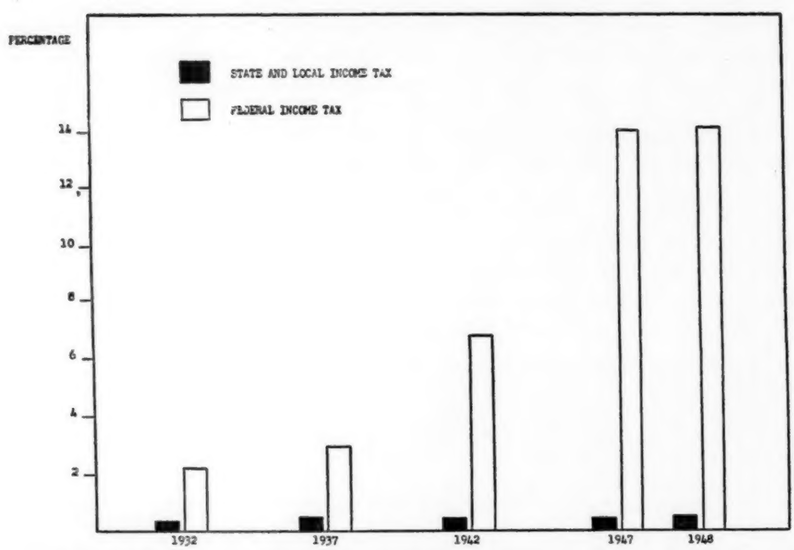

CHART 2. RELATION OF TOTAL INCOME TAXES TO NATIONAL INCOME PAYMENTS

Legislative action designed to extend tax relief does not fully explain the inability of state income tax receipts to keep abreast of income payments during the war. The Kentucky legislature resisted the pressure to cut income tax rates; nevertheless, as graphically shown in Chart 3, Kentucky income tax revenue did not expand as rapidly as did income payments from 1943 to 1946. In fact, Kentucky income tax revenue declined $150 thousand in the fiscal year 1944 despite a $244 million increase in the state's income payments from 1943 to 1944!

Kentucky allows individuals and corporations to deduct federal income tax payments for the determination of state tax liability, as do the majority of the income tax states. This allowance contributed substantially to the relative and,

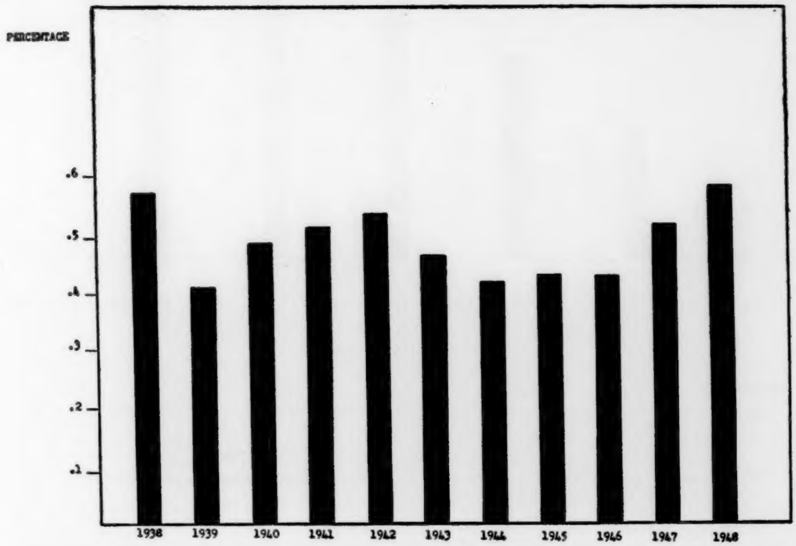

CHART 3. RELATION OF STATE INCOME TAXES TO KENTUCKY'S INCOME PAYMENTS

in the instance of one year, the absolute decline of Kentucky income tax collections during the war.

The effect which the deduction of the federal income tax payments can exert on state tax revenue is traced by John Chalmers in a recent study of the New York personal income tax: "It is estimated that, on the basis of the 1941 Federal rates, the deduction of Federal income tax payments would cost New York State a 20% revenue loss. Applying the 1943 rates, this loss is estimated at approximately 60 per cent and, with 1945 rates, at about 50 per cent."[4]

Kentucky experience also indicates that the wartime lag in state income tax collections was undoubtedly aggravated by the shortage of competent, experi-

[4] John Chalmers, *The New York State Personal Income Tax*, Special Report of the State Tax Commission, No. 16, 1948, p. 58.

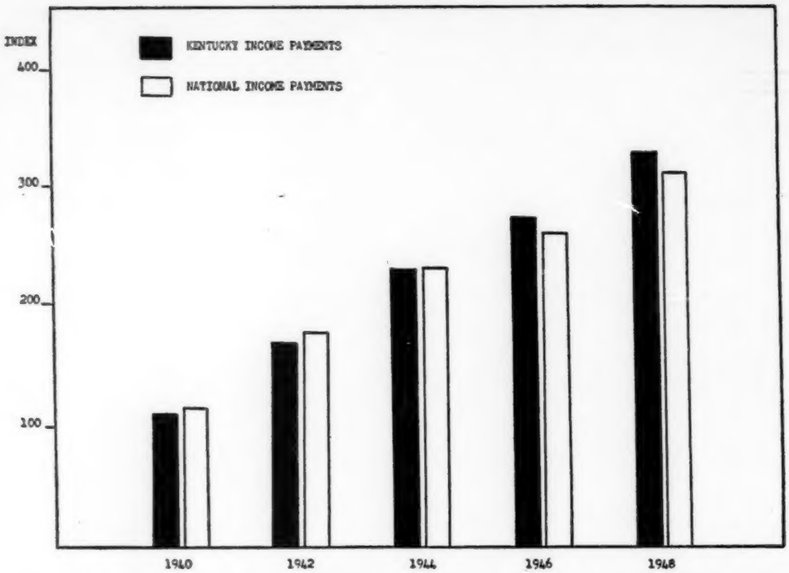

CHART 4. THE COMPARATIVE INCREASE OF KENTUCKY AND NATIONAL INCOME PAYMENTS SINCE 1938
(1938 equals 100)

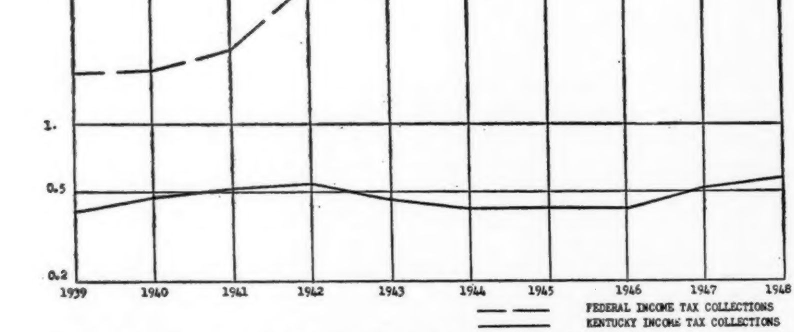

CHART 5. FEDERAL AND STATE INCOME TAX COLLECTIONS IN RELATION TO KENTUCKY INCOME PAYMENTS

enced personnel. Although Kentucky income payments have increased more rapidly than national income payments in recent years, as indicated by Chart 4, the Kentucky Department of Revenue had fewer employees to administer the income tax during the war. "In 1941–1942 the department had an average of 204 employees but in 1943–1944 the average dropped to 186. To make the picture more graphic, there were 206 employees at the beginning of the fiscal year and only 165 at the close. During the year there were 106 resignations or transfers and 65 employments."[5] The losses in quantity and quality of technical manpower, such as income tax auditors, were even more sweeping. The higher pay scale of private industry for comparable work and the manpower demands of the armed services were responsible for this high personnel turnover.

Beginning in 1947 Kentucky income tax collections have increased more rapidly than income payments. This reversal in Kentucky income tax behavior can be traced in great measure to the very factors which were responsible for the decline of Kentucky income tax revenue in relation to income payments during the war, namely, state administration of the income tax and the deductions of federal income tax.

The administration of the Kentucky personal income tax was improved by the introduction in 1946 of the optional simplified table for the small taxpayer patterned after that used by the federal government. Compliance was made easier for the taxpayer and the handling of returns rendered more expeditious for the Department of Revenue.

The repeal of the corporate excess profits tax in 1946 and the downward revision of the federal tax rates on personal income since the war were also important factors responsible for the upsurge of Kentucky income tax collections in relation to income payments. As federal rates dropped, Kentucky taxpayers deducted less federal income tax payments for the determination of their state income tax liability. For example, in 1944 federal income taxes collected in Kentucky amounted to 14.36 per cent of Kentucky's income payments; by 1948 federal collections in Kentucky had dropped to 10.22 per cent in relation to income payments.[6] During this same period Kentucky income tax collections increased from 0.42 per cent to 0.58 per cent of income payments, notwithstanding the fact that income tax rates were not raised. (See Chart 5.)

Kentucky's recent experience with income taxation suggests that the revenue derived from this source is contingent not only on business conditions within the Blue Grass State and on proper administration of the income tax, but also on modifications of the federal income tax rates. In view of the pre-eminent place of the federal income tax in the nation's tax system, modifications in national policy materially alter the tax base of the 23 states which allow taxpayers to deduct federal income tax payments in computing income to determine state tax liability.

[5] Department of Revenue, *Twenty-Sixth Annual Report*, 1944, p. 5.

[6] It should be noted that although federal collections are not reliable as to amounts, they are significant, however, as to relationships, one year with another.

BOOK REVIEWS

Economy of the South. Report of the Joint Committee on the Economic Report on the Impact of Federal Policies on the Economy of the South. Prepared by Calvin B. Hoover and Benjamin U. Ratchford. Washington: U. S. Government Printing Office, 1949. Pp. xi, 92. Paper, 20¢.

Despite the implications of the sub-title, this report is not primarily an analysis of the effects of past and present federal policies upon the economy of the South. Analysis of that question is very brief and is purely incidental to discussion of what the authors consider desirable policies for the future.

The report is divided into four major parts, or chapters, as follows: (1) "The South as a Region for Economic Development," (2) "Barriers to Economic Development of the South," (3) "The Basic Elements of a Program to Overcome the Economic Lag of the South," and (4) "Specific Federal Policies and Programs for the Southern Economy." Due to the way the report is organized, there is considerable repetition of factual data. Such repetition, however, makes it possible for a person to read each chapter as a separate unit instead of reading the report as a whole, and for a report of this nature that is probably a virtue rather than a fault.

In the first chapter the authors have done an excellent job of summarizing much of the basic economic data of the South, and of directing attention to important relationships between and implications of the data. They have performed a valuable service in bringing these data together into a single publication. In the second chapter Professors Hoover and Ratchford have also rendered a service by dispelling several popular myths concerning economic development in the South. Some of these myths are overemphasis on freight rate differentials, the low productivity of southern workers, the unavailability of capital funds for industrial expansion, and the undesirability of industrial development through absentee ownership.

The authors have a sound approach to the problem of overcoming the economic lag in the South. They point out that since the South provides such a high proportion of the natural population increase in the United States (59 per cent between 1940 and 1947), the basic requirement for overcoming this lag is national full employment, without which it will be impossible to achieve large-scale migration out of the South and a rapid rate of industrial development in the South. The implication is that if there is considerably less than full employment, jobs for prospective migrants will be few and insecure, business confidence will be insufficient to bring about extensive industrial development in the South, and consequently southerners will retain whatever low-income jobs or occupations they have or can find in the South.

The reader who is convinced of the soundness of the above analysis will be surprised to note that the authors failed to apply it in the agricultural sections of their report. Applied to southern agriculture, the analysis would be somewhat as follows: If there is a considerable amount of industrial and commercial unem-

ployment, southern farm people will have virtually no nonfarm occupational opportunities. Therefore, they will retain or find agricultural occupations even though farm wages and labor incomes are very low. Since the profitability of farm mechanization depends to a very large extent upon the value (price) of the labor that is "saved," it follows that farm mechanization in the South will proceed very slowly unless there is national full employment.

In failing to apply their general method of analysis in the agricultural sections of the report, the authors missed an excellent opportunity to explode the currently popular myth concerning "displacement" of farm workers by machinery. Instead, they accepted uncritically the popular belief that farm mechanization is independent of the cost of farm labor. In short, the farm mechanization cart is placed in front of the industrial development horse. Contrary to the suggestion contained in this report (and in numerous others on the same subject), it is not simply a fortuitous circumstance that the recent large-scale farm mechanization in the South has been accompanied by sufficient industrial growth throughout the nation to absorb the "displaced" workers. Without the industrial growth, very little of the farm mechanization would have occurred; improvements in farm machinery would have forced farm workers to accept wages low enough to compete with the machines (unless more attractive relief payments were available).

Even though the agricultural sections of the report are the least satisfactory, they are for the most part sound. Taken as a whole, the report is of high quality and deserves the careful attention of every student of southern economic problems.

Clemson College J. M. STEPP

Cotton's Way Forward. By M. K. Horne, Jr. University: Bureau of Business Research, University of Mississippi, 1949. Pp. xi, 106. Paper, $1.00.

The first chapter of this book contains a thorough discussion of the problem facing the entire cotton industry. The author presents the story of the cotton farmer's income, the cotton farmer's domestic market, and the cotton farmer's foreign market in a very interesting and revealing manner. He summarizes the whole problem in these words: "The three great facts of the cotton problem are (1) the farmer's low income, (2) the new meaning of cotton's competition, and (3) the requirements of the export market. The central cause of disagreement on a cotton policy is a natural tendency of many people to emphasize one fact and to skip lightly over another."

With this statement of the whole problem, the author then proceeds to discuss the opportunities presented for their solution. The first suggestion made is that the quality of cotton can be increased greatly and aid in solving all three parts of the problem faced by cotton farmers. The author feels that the secret of cotton's quality position is not in its absolute superiority in one or a few characteristics but by its high rank in a large number of characteristics.

The second area in which efficiency can aid in solving the cotton problem is in merchandising. This should include improvements in advertising, public rela-

tions, technical services, quality of design and manufacture, selling methods, and market information.

The third area that offers an opportunity for increasing efficiency is production costs. These opportunities naturally are those that face the cotton producer. For the most part they deal with opportunities to increase yields per acre and to reduce costs per acre. The author includes a section entitled "The Curse of Token Measures." In every case he indicates that the efforts are only a very small token of what is necessary to obtain a solution to the problems being attacked.

The third chapter of this book discusses opportunities in pricing. In this section the author suggests a pricing program that is stimulating and at the same time is extremely controversial. It is a modification of the two-price system that has been suggested on several previous occasions. In effect, the pricing system suggested would mean that the total amount of cotton that would be consumed domestically would be determined in advance, and each farmer would be given a quota of cotton that he could produce, based on his share of the domestic market. He would be allowed to sell this amount of cotton at what was determined to be an effective price. Any amount that he sold in excess of his domestic quota would have a marketing assessment deducted from it. This marketing assessment would represent the difference between the effective price of the cotton sold in the domestic market and the cotton sold in the export market plus the cost of administering the program. The various dangers inherent in such a pricing system are recognized by the author, but he believes the advantages of the system are such that they greatly outweigh the disadvantages.

The final chapter of this book is a summary of the entire discussion. It is evident that the author has given a great deal of thought and study to cotton's major problems. He has discussed them in a very clear and convincing manner. The report is well and interestingly written. Every person interested in cotton and its future will want to study this book very carefully.

Delta Branch Experiment Station D. Gray Miley

Conflicting Patterns of Thought. By Karl Pribram. Washington: Public Affairs Press, 1949. Pp. viii, 176. $3.25.

Although the author of this little book has admittedly tackled an immense problem—no less than that of "defining modern conflicting patterns of thought and of analyzing, in terms of that struggle, some of the leading international problems which face the Western democracies" (pp. v and vi)—he has done so with appropriate and, it is believed, sincere modesty. He recognizes that "almost every chapter of this treatise could be elaborated into a detailed book" (p. vi), that he has "perhaps oversimplified highly complex social interrelationships and intellectual trends" for the sake of clarity and conciseness (p. vi), that he has been content with "adumbrating rather than scrutinizing difficult logical problems" for the same reason (p. vi), and that more questions have been raised than answered (p. vi). It is enough to say here that all of these points recognized by the author are quite well taken.

It is Professor Pribram's thesis that four main patterns of thought have prevailed in recent times in the Western world, that each has found concrete expres-

sion in a specific type of social organization, and that only by understanding the underlying thought pattern can a given social organization be understood. The essential way in which each of these patterns of thought differs from each of the others lies in the way each defines the way in which the human mind "knows" and the extent of its "knowing." On the one hand, there is an important distinction to be drawn between "universalistic" reasoning and "nominalistic" reasoning. The former assumes that "the rules of human reasoning exactly correspond to or exactly reflect the rules underlying the order of the universe" (p. 2), and concludes from this assumption that "thinking" and "being" are identical. The latter assumes that man's understanding of the universe has been "established in accordance with the rules of human reasoning," and that man has no means of discovering how valid this understanding is (p. 2). Thus this thought pattern rejects the idea of identity between "thinking" and "being."

But on the other hand, it is necessary to distinguish between three forms that the "identity of thinking and being" approach has taken. There is first "universalistic" thinking, the strongest expression of this approach, or the acceptance of a system of rigid concepts believed "to be inherent in the human mind or to be directly evident because of the mind's cognitive capacity" (p. 3). There is second "intuitional" thinking, or the belief that ideas of the real world come from "the ability of the mind, with the aid of a sort of inner light, to form concepts and judgments which provide direct insight" (p. 3). Finally there is "dialectical" thinking, or the belief that the mind has the "ability to interpret all phenomena and events, because of their continuously changing aspects, in terms of an evolutionary process" (p. 3). The last two of these patterns of thought, it should be added, though dominated by the principle of identity of thinking and being, are actually a blend of universalistic and nominalistic reasoning.

With this classification of thought patterns as his structural framework, Professor Pribram builds his analysis of the implications for social organization. This analysis can be conveniently summarized as follows:

1. Universalistic reasoning is most closely associated with the Middle Ages when the church was the most important social factor;

2. Intuitional reasoning is most closely associated with National Socialism in Germany in recent times—a system in which the nation was elevated to the position of first importance;

3. Dialectical reasoning is most closely associated with Soviet Russia where the working class has been assigned the central role;

4. Nominalistic reasoning is associated, of course, with capitalist-democracy where the individual occupies the primary social rank.

The climax toward which this volume progresses, as the author interprets the postwar international scene in terms of his analysis, is that world peace will not be possible until all essential institutions reflect the same pattern. Since there seems to be no possibility of even a workable compromise between nominalistic and dialectical thinking, this peace hinges upon the success with which one or the other of these patterns of thought destroys its competitor. The challenge for nominalistic thinking (and hence democratic institutions) is to destroy Bolshevism by means of logic before Bolshevism destroys it by means of force.

Professor Pribram has so well set forth the shortcomings of his little book (briefly outlined in the first paragraph of this review) that little more need be said along that line. Several items, however, do stand out in the mind of the reviewer. First, was it not the archnominalist Descartes who said "I think; therefore I am," and thus made nominalism also an adherent to the principle of the identity of thinking and being? Second, is not the emphasis here too exclusively upon the differences that exist within the Western world to the neglect of certain very basic similarities, particularly in the collectivist area. Third, and closely related to both the above points, is not the present tendency on the part of science and science worshipers to give absolute rather than hypothetical standing to their findings an outright rejection of the nominalistic tradition as defined by Pribram, as well as a partial commitment to the outrages of totalitarianism that he so abhors? Fourth, is the essential harmony of individual interests which is here identified with nominalistic thinking really more logically demonstrable than the alternative possibility? And finally, even if this were the case, would the possibility of destroying Bolshevism with logic really be the basis for optimism that is here suggested?

University of Georgia HOWARD R. SMITH

Two Memoirs: Dr. Melchior, A Defeated Enemy; My Early Beliefs. By J. M. Keynes. New York: Augustus M. Kelley, 1949; by permission of Rupert Hart-Davis, London. Pp. 106. $1.75.

These two delightful memoirs exactly as they were written are presented to comply with an express provision in Mr. Keynes' will that these papers, and these alone of his unpublished writings, be printed. One can only guess at Mr. Keynes' motives.

The first of the essays (1931) has to do with the negotiations connected with the feeding of Germany immediately after the signing of the Armistice ending World War I. One sees the situation through the not too humble eyes of Mr. Keynes himself, and, of course, that gentleman's part in the play is presented as a major role. David Garnett, who introduces each memoir, views the discussion as a restatement of Mr. Keynes' original belief that the continuation of the Allied blockade after the Armistice was a grave error.

The second of the memoirs (1938) gives one an insight into early beliefs which led to the development of a framework of reference. The framework of reference prompted Mr. Keynes to classify himself as an "immoralist" who had escaped from the Benthamite and from the Marxist tradition, but who had "completely failed, indeed, to provide a substitute for these bogus-faiths capable of protecting or satisfying" his successors. The opportunity allowed the reader to read between the lines and to exercise his imagination is amazing.

To the one who has read only among the more technical works of Mr. Keynes this little book should be of great interest. Any student of economics, with the possible exception of the one who has developed a pathological revulsion for all words beginning with "K," can spend here a few profitable moments.

Texas Western College JOHN H. D. SPENCER

The Idea of Progress: A Collection of Readings. Edited by Frederick J. Teggart and George H. Hildebrand. Los Angeles: University of California Press, 1949. Pp. ix, 112. $1.25.

This collection of readings brings together in the space of 450 pages the conceptions of progress of 43 different authors spanning the period from 735 B.C. to 1871 A.D., i.e., from Hesiod to Charles Darwin. Included are the greatest thinkers of the ages—Plato, Aristotle, St. Augustine, Francis (but unfortunately not Roger) Bacon, Locke, Leibnitz, Hume, Adam Smith, Kant, Hegel, Marx and many other familiar names.

According to the Preface, "The theme of these readings is the idea of progress, the dominant conception in the European outlook from the late seventeenth century until the First World War. Yet the materials themselves, by taking the reader into the history of the idea of progress, also take him well beyond it. They do so in two ways. First, they lay bare the whole conceptual framework of the social disciplines in their formative period, and so can serve as valuable source readings for the history of the social sciences. Second, they link the idea of progress to earlier conceptions of history, which, in turn, contributed its underlying premises. For the idea of progress is not primarily an innovation of recent time, but rather the outcome of twenty-five centuries of antecedent speculation."

The basic conception of this book subjects it to severe limitations. The galaxy of profound thinkers is represented by an average of only ten pages per author. Inevitably a good deal is lost. Inevitably also, the succession of selections from diverse writers gives a disjointed impression. Moreover, because the latest selection was first published in 1871, modern thought is conspicuously absent. To a large extent these limitations are compensated by a 30-page introduction. This chapter, the work of Professor Hildebrand, traces the history of the idea of progress, indicating transitions and fitting many (but by no means all) of the writers into their proper niches, and concluding with a few pages on the modern conception of progress.

The book will be useful primarily to students and teachers of the history of ideas. One who, like the present reviewer, turns to it in hope of gaining a philosophic foundation for one's own work in economic history is doomed to disappointment. Roaming through so many brash hypotheses, one cannot help but wish the editors had included a stern dose of modern skepticism. But whoever reads the book is assured of an interesting excursion into an important idea.

The late Professor Frederick J. Teggart of the University of California made the original selections out of which this book grew. Professor George H. Hildebrand of the same school has made numerous additions as well as writing the introduction. In these modern days of mass-production, when an editor can turn out half-a-dozen books a year by writing a sufficient number of letters requesting the addressees each to contribute a chapter, to be listed on the title page as the editor carries very little honor. Let it be said, therefore, that Teggart and Hildebrand deserve credit for a great deal of careful labor in making selections and arranging for translations and publication.

Vanderbilt University RENDIGS FELS

Economics and the Public Welfare: Financial and Economic History of the United States, 1914–1946. By Benjamin M. Anderson. New York: D. Van Nostrand Co., 1949. Pp. xiv, 602. $6.00.

A book like this could have been written only by Benjamin Anderson. After his major contributions, *Social Value* (1911) and *The Value of Money* (1917), he not only acquired an intimate knowledge of important developments as they occurred but also influenced them himself in his capacity as economist for the National Bank of Commerce from 1918 to 1920 and the Chase National Bank from 1920 to 1939. While at the University of California from 1939 until his death in 1949 he retained the personal contacts he had previously made with other responsible figures both here and abroad.

The book is in part autobiographical. The author also discloses a number of hitherto unrevealed incidents which help to clarify the reader's understanding of the period. In connection with his persuasive analyses of the various developments the author makes critical comments on the views of Fisher and Cassel, and he offers a fairly long and penetrating digression on Keynes. He approves of Mitchell's cycles studies which rest on economic equilibrium.

After reviewing the economic and financial policies in the first World War, the author turns to the twenties. He maintains that the popularity of the quantity theory in 1920 prevented a real investigation of all the underlying factors in the business situation in that critical year when the economic unbalance and departure from equilibrium foreshadowed a crisis. He attributes the subsequent revival until 1923 to sound government policy, although he criticizes the tariff of 1922 and American foreign policy generally, including reparations. Throughout there is also a good deal of material on economic and financial changes in Great Britain, France, and Germany.

According to Anderson, 1924 marks the real beginning of the New Deal in this country since it was in that year that the McNary-Haugen Bill was first introduced and the Federal Reserve authorities first began to manipulate the money market with the cheap money policy which led to the excessive credit expansion and the ensuing boom. He points out that although the great New York banks foresaw the consequences they were powerless to counteract Federal Reserve policy and could only prepare for the anticipated collapse, which they did.

In exploring Hoover's New Deal measures the author considers Hoover's request that business men hold up wages and prices, the farm price support legislation, and the Hawley-Smoot tariff of 1930. In connection with Roosevelt's extension of the New Deal he analyzes the contradictions, the redistribution of wealth program, and the factors in the crisis of 1937. With respect to government economic and financial policies in the second World War he concludes that they were inferior to those of the first World War.

This is an interesting and highly significant book. The inside stories, the comments on personalities, and the author's practical understanding, breadth of scholarship, insight, and perspective make his interpretations considerably more helpful in understanding the period than other treatments. The book should be

welcomed by economists generally as well as by those in the specialized fields directly concerned.

Muhlenberg College ALFRED BORNEMANN

Wealth of the American People: A History of Their Economic Life. By James A. Barnes. New York: Prentice-Hall, 1949. Pp. x, 910. $5.75.

The author of this new text expects it to be attacked. No doubt, he will prove himself a good prophet. Many will quarrel with his few maps, charts, tables, and footnotes. Others will object to his omission of or slight emphasis upon time-honored material. Still others will regard most of the social material included as extraneous. Such is not the attitude of this reviewer. No one can write a complete economic history within the compass of 400,000 words. The reviewer thinks that the author has done a good piece of work, and also a tremendous one.

Our criticisms relate in particular to the author's tendency to make too strong and at times misleading statements and to his invariable habit of writing out statistics in full. Examples of exaggeration or misleading statements appear on pp. 170, 270, 289, 311, 319, 394, 481, 644, 673 and 732. Not all men in 1816 faced the wilderness without fear. Iron received increased protection in 1818. Not all trained engineers and mechanics prior to 1860 received five dollars a day or more. Some credit should be given to Transylvania University and other western schools. The South and the Southwest opposed protection in 1816, even though South Carolina representatives voted 4 to 3 for it. More than a million dozen eggs were gathered by farmers each year in the late 1890's. Tariffs did not rise each year from 1865 to 1900. Henry Ford's bargaining ability is open to question. Not all tillers of the soil in the sections pictured for 1929 remained "small land owners ever in want." Not everyone will agree that the "New Deal" emergency measures for agriculture were "undeniably helpful." The writing out of statistics gives the impression to the hurried reader that the book is free from undue details, whereas it actually has as many statistics as every economic history must. Some instances may be noted on pp. 288, 490, 548, 584, 683, 742, and 828.

To comment on good points, the author has a laudable gift for quotations and literary allusions. Especially does he like to quote poetry, or what passes for poetry. Examples appear on pp. 101, 102, 151, 180, 205, 267, 297, 325, 332, 399, 694, and 734. He also has a gift for picturesque or striking statements. He refers to "Randolph of the bony fingers and biting tongue" (p. 271), and quotes, "When Calhoun took snuff, the whole of Carolina sneezed" (p. 272). He stated: "Lee's defeat was not unconnected with the fact that in Virginia there were not enough grain and pasturage for his cavalry horses" (p. 334). "Fortunate is the note," the author quoted for the 1890's, "that can truly say 'I know that my Redeemer liveth' " (p. 464). Rather ironically he remarked, " 'Seats' (though nobody had time to sit down) sold in the Stock Exchange for more than a half million dollars" (p. 678). Ironical but thought-compelling exaggeration appears in this sentence on the economic collapse: "And last, with honest citizens of the land struggling to earn a living and being treated with scant decency on the slightest

unintentional infraction of the law, bootleggers, racketeers, and gangsters lolled in open luxury with, apparently, the blessings of the office holders and the police force" (p. 686). Relative to troubles in early World War II preparations the author stated, "A number of other questions engendered much heat though sometimes little light" (p. 805).

The author has delved into old letters, diaries, and account books in numerous states and he quotes this rare material exceptionally well. Examples appear on pp. 184, 288, 334, 335, and elsewhere. The author likewise quotes effectively newspapers, government documents, books of travel, and other original sources.

The bibliography, organized to correspond with the major divisions, is a good one, but there are no selections for additional readings at the end of the various chapters. A short index, partly analytical, is helpful, but it does not list maps, charts, figures and tables. A good map of the leading products of the United States is in the front of the book. The five tables and thirty-two figures, the latter including a few maps, but chiefly pictures and charts, are well selected.

The 39 chapters fall under seven headings. "The Colonial Era" has 5 chapters; "The Period of Revolt and Adjustment, 1775–1816," only 3; "The Foundation Years of National Economy, 1816–1865," 10; "The Golden Age of Industry, 1865–1900," 9; "The Years of Transition, 1900–1929," 5; "Uncertainty and Experiment, 1929–1941," 4; and "World Conflict and New World Problems," 3. About three-fifths of the pages deal with history since 1865.

Some of the material is very interesting and the author deserves much credit for his careful research and fresh treatment. His work is highly creditable.

University of Kentucky WALTER W. JENNINGS

Comparative Economic Systems. By Ralph H. Blodgett. Rev. ed. New York: Macmillan Co., 1949. Pp. x, 892. $5.00.

This volume is a revision of a text which first appeared in 1944. In Part I of the earlier edition the author deals with the economic systems of the United States, Soviet Russia, Italy and Germany. Part I of the revised edition consolidates and reduces the treatment of the fascist systems which existed in Italy and Germany and adds an analysis of Great Britain "under partial socialism." The revision also includes recent information concerning the Soviet Union. Part II (about 140 pages) dealing with the theoretical aspects of "Marxian Socialism" has been left fundamentally unchanged.

The author has preserved the topical approach (government, production, agriculture, exchange, etc.) as opposed to the country by country method frequently used in texts of this type. This method probably reduces the number of countries that may be treated without undue confusion. Some teachers may wish to extend the course in economic systems beyond the coverage of this and other texts in the field. Valuable economic information is accumulating concerning such countries as Spain, Argentina, Portugal, Poland, Yugoslavia, etc. The economic structure of pre-capitalistic economies may also be included where time permits.

Commenting on the British economic position under the Labor Government, the author notes that productive results have been less than startling and that there has been "little if any improvement in the economic lot of the average

British citizen." Regulations, controls, and restrictions have increased although this may be due in part to post-war conditions rather than solely to socialism. The author speculatively suggests that the "Labor Government may have the economy so well scrambled by 1950 that there will be no alternative except to go on to full socialism, even though partial socialism has worked very poorly on the whole." Time alone can provide the answer.

In spite of limited coverage, Blodgett has made a worthwhile revision of this text. Teachers who found the first edition suitable for their class needs should welcome this revision.

University of Kentucky JOHN T. MASTEN

Income, Saving, and the Theory of Consumer Behavior. By James S. Duesenberry. Cambridge: Harvard University Press, 1949. Pp. 128. $2.50.

In this book the author develops an interdependence theory of consumer behavior. Instead of the assumption in the marginal utility and indifference map approaches that each individual tries to maximize his utility independently of every other individual, the author suggests that consumer preferences are in reality interdependent. Consumer behavior and consumption patterns are psychological, social, and institutional phenomena. Consumers evaluate goods and services which satisfy physical needs and the activities required by the social interrelationships in a culture in terms of the superiority or inferiority of the goods to one another. In our society the desire for a rising standard of living and a higher status leads people to want to increase the quality of the goods they consume, if necessary by giving up saving in favor of the higher quality goods they feel they need as a result of coming into sustained contact with them.

Not only are preferences interdependent, but they are irreversible. In a depression consumers do not reduce consumption outlays by as much as their reductions in income. Since savings decline in order to continue consuming at an earlier higher level, it may be concluded that the savings ratio depends on the ratio of income to the highest income previously attained.

The interdependence theory partly explains the growth in the demand for and the sale of new products, but such demand analysis alone does not completely explain complex phenomena involving business economics, the role of inequality, and other interrelated factors in the development of new goods and wider markets. Although this book falls within the general category of aggregative welfare economics and the reviewer believes the author's effort to encompass the whole field makes some parts a little thin, the theory is likely to be of interest even to those without the various predilections of welfare economists.

Muhlenberg College ALFRED BORNEMANN

The Theory of Fluctuations in Contemporary Economic Thought. By Sidney D. Merlin. New York: Columbia University Press, 1949. Pp. 168. $2.75.

Undoubtedly much has happened to the theory of economic fluctuations since the appearance of Lord Keynes' *General Theory*. Highly significant expansions and changes of the theory were destined from that very day; and had there not been Keynes the Stockholm School perhaps would have sufficed to force major

adjustments upon the contemporary economist. If the reader has not entertained this view beforehand, after a reading of Dr. Merlin's study, in all probability he will come to accept it unequivocably.

Here is a most useful study. It comes at the right time, when there is great need to take stock of contemporary theory of economic fluctuations. There are seven carefully organized chapters developed around the thesis that there is still a pressing need for a dynamic theory of economics "... that attempts to develop a theory of cyclical (or other) fluctuations from a modified equilibrium analysis leave fluctuations in employment and prices unexplained," and that "A complete or adequate explanation of disturbances within the context of equilibrium analysis does not seem possible." Undoubtedly some will disagree with this position but this reviewer cannot. He, too, would emphasize that equilibrium theory, whether of the classical or the Keynesian variety, may obscure those driving forces which make for fluctuations in employment and prices.

Dr. Merlin's efforts to expand upon these propositions are penetrating and fertile. After a brief but valuable examination of the cycle theories of Jevons, Walras, Veblen, Mitchell, Wicksell, J. M. Clark, Tinbergen, Frisch, and others, he compares the Keynesian and Stockholm School brands of economics, while Hick's "dynamic" theory is injected into the comparison as a vehicle for a critique of the theory of expectations. The comparison serves to demonstrate the inadequacy of equilibrium analysis. Hicks, says Dr. Merlin, does not achieve a "truly dynamic analysis" because he clings to the "general equilibrium approach to relative price formation." Keynesian theory has not been very successful for it is decidedly short-run in character. The Swedish sequence analysis, however, opens "up a promising field of long-run dynamic theory."

Since the Swedish approach is not equilibrium analysis, it avoids the chief deficiency of the others, and also of the econometricians (e.g., Tinbergen, Frisch, and Koopmans). The impounding of such data as capital expansion and technological and institutional changes, all of which make for the dynamics of the modern economy, keeps these theories largely static. By means of sequence analysis, however, the Swedes are able to examine those changes with some degree of determinateness. They definitely show how expectations cannot be explained in a system employing general equilibrium analysis.

From these observations Dr. Merlin goes on to suggest, as can be the one logical conclusion, that a theory of economic development is "a prerequisite" of a theory of business cycles. He does not, however, carry this proposition to its completion: that the business cycle will in all likelihood disappear as a phenomenon of separate theoretical treatment, once a theory of economic development has been attained. Indeed it is possible that a truly dynamic economics would embrace both phenomena as elements of an economic process over time and space.

Emory University ERNST W. SWANSON

Problems in Personnel Administration. By Richard P. Calhoon. New York: Harper & Bros., 1949. Pp. xii, 540. $4.00.

The title of this new text likewise gives a clue to the book's strength and weakness. Instead of the more usual broad generalities found in many texts in this

field, this book deals with concrete problems. Such an approach will be a welcome relief to the experienced teacher of Personnel Management, but the inexperienced teacher will have some difficulty unless his students have had good preparatory courses in labor economics.

Professor Calhoon discusses each of the personnel functions. He does not present techniques. Instead, he raises problems connected with each function and then presents principles and rules for meeting those problems. His chapters on Wage and Salary Administration and Work Load illustrate this method. Incentive systems are mentioned and some general principles for successful systems are listed. One looks in vain, however, for any description of the dozen or more named formal incentive systems. On the other hand, as Professor Calhoon well knows, work loads are the basic problem of any type of incentive system based upon time study. Therefore, a whole chapter is devoted to the dozens of problems which arise as union and management or management alone meet the question "How much work?" Probably a majority of the texts in the field fully explain the details of the Halsey plan or the Bedaux system of wage payment but have little if any reference to the practical problems of establishing work loads. This author, on the other hand, lets the student learn the details elsewhere while he presents, analyzes, and offers sound solutions to the problems which arise in connection with those systems.

The author's presentation of the problems met in collective bargaining is particularly good. He shows a keen knowledge and understanding of the difficulties involved on both sides of the bargaining table and presents some principles for management and labor to follow. Equally good—and for the same reasons—is the chapter on grievances.

The special personnel problems involved when a plant has a union are discussed throughout the book rather than being crowded into one or two chapters. This device is surely realistic under present circumstances, but the personnel manager in a non-union plant will find the problems and solutions are for him too. In other words, this book is not a handbook on getting along with unions.

The teacher will be pleased to find questions, projects for future work, and situations for role-playing at the end of each chapter. He will be disappointed that no bibliography is supplied.

Professor Calhoon out of his experience in industry and teaching has written a practical, teachable book. His findings reflect also the results of a questionnaire which he sent to over 500 personnel administrators. The student after finishing the book will still need to learn techniques, but he will be well aware of the problems he is likely to face in personnel administration.

Duke University FRANK T. DE VYVER

Passing the Mill Village: Revolution in a Southern Institution. By Harriet L. Herring. Chapel Hill: University of North Carolina Press, 1949. Pp. vii, 137. $3.00.

Management ownership of entire villages has been a characteristic phenomenon of the southern textile industry for many years. It has been vigorously criticised as subjecting the worker to a modern manifestation of feudalism which

deprived him of his mobility and bargaining power, and just as vigorously defended for providing stable housing at low rentals. Whatever the merits of the argument may be, the institution of the company-owned mill village is now definitely tending to disappear through voluntary action by management.

The author has produced a highly competent survey of the passing of the mill village. It may come as a surprise to learn that the first reported sale of a mill village occurred in 1934, and that no less than 127 villages have been sold by textile companies in Virginia, North Carolina, South Carolina, Georgia and Alabama since that time. Plainly the sale of that many villages, representing perhaps 15,000 homes together with business properties and other adjuncts of community life, constitutes a major trend which bears investigation.

This book is a careful study of the causes and effects of this trend, based on a detailed analysis of the circumstances surrounding 97 specific sales of mill villages. Information concerning each sale has been obtained by the author from a large number of direct sources, and the results have been woven into a valuable analysis of the many aspects of each sale. It is interesting to discover, for example, that the 97 mills which have sold villages have had widely varying reasons for their action, that the presence or absence of a strong labor union has had no apparent significant effect on the decision to sell, that the workers in general have been anxious to acquire their own homes and divorce the job from possession of the home, and that management in general is encouraged by the results of the sales in eliminating the administrative burdens of operating villages, in raising new capital which may be employed directly in production, and in developing a more responsible and efficient group of home-owning employees.

University of North Carolina GERALD A. BARRETT

Yes and Albert Thomas. By E. J. Phelan. New York: Columbia University Press, 1949. Pp. xvi, 271. $3.50.

Take one highly individual Frenchman with enormous zest for life and action, add an Irishman with a sense of humor and long training in the practices and traditions of the British Civil Service, and you have an effervescent mixture. Mr. Phelan's characterization of Albert Thomas as first director of the International Labor Office is written with skill and charm, and this reviewer would commend it to the general reader as having more human interest than many a novel.

This is not a book to serve the economist in any specialized or narrow sense of his profession, but for the economist as citizen it gives a most valuable picture of setting up and working an international organization which has to deal with economic and social issues. As one of the few institutions which has carried over from the day of the League of Nations to that of the United Nations, the International Labor Organization repays study from the point of view of set-up, administration, and achievements. Its framework, incorporating the plan of direct representation of employers and workers as well as governments, was constructed at the Peace Conference, but its first director was largely instrumental in giving the body life and purpose and in improvising solutions to the new and peculiar problems of organizing an international staff.

"Whatever" (the technique and rules of operating international organizations) "may eventually be, there is little doubt that Albert Thomas will be held to have contributed to them with astonishing foresight." M. Thomas achieved his clarity of vision partly because of his steady focus on the purpose of the organization he was helping to mould, but more fundamentally because of his positive philosophy of life. This philosophy is delightfully evoked in the introductory quotation which explains the intriguing title Mr. Phelan chose for his book.

Sweet Briar College GLADYS BOONE

Congress Makes a Law: The Story Behind the Employment Act of 1946. By Stephen Kemp Bailey. New York: Columbia University Press, 1950. Pp. xii, 282. $3.75.

This interesting volume gives a detailed and well documented account of the development and passage of the Employment Act of 1946. The author has succeeded in lifting his account above the tedious and pedestrian level which such studies as this one frequently have. It is a rewarding volume for those who wish to learn how the legislative process in our system of government operates in reality.

The author takes the reader step by step through the complicated series of considerations and maneuvers which are involved in the passage of an important piece of legislation in a controversial field.

The roles of the minority and the majority parties in the Congress are portrayed in considerable detail with respect to their part in the framing of legislation.

The account of the activities of various pressure groups is of special significance in this study. The techniques which they employed to further their respective campaigns are discussed at length. The part played by pressure groups has a significance beyond their part in the employment act battle. A review of their activities is especially instructive in relation to the development of any program of legislation in the economic field.

Another interesting and informative account included in this study has to do with the function of the experts, those attached to the congressional committees, and those on the staffs of the various administrative agencies. The range of the activities of these experts, beyond their usual concern with technicalities, is especially interesting in connection with the passage of the employment act.

The author does a useful service in giving a series of personality sketches of the members of the House and Senate who were directly concerned in the framing of the statute. The way in which these personal predilections of members of the Congress affect the content of such an act as this is of special significance.

Another useful section in the book is a reproduction of the text of the act in such form as to identify the source of the language used in the various parts. This is quite constructive in enabling the reader to appreciate the composite character of such a statute.

Finally, this study points up a number of very serious problems involved in the legislative process in this country. If a democracy is to function adequately, it is important that the legislative machinery operate in such a way as to avoid

the frustration of the popular will. The author's closing sentences in this book are of direct significance. "The present splintering of decision-making leads to inevitable confusion and frustration among our national legislators, and in some cases, such as in filibusters, to a travesty of democratic processes. Congress must have the continuing right of introducing, revising, and enacting legislation, but these functions should be carried on in such a way that the public can pin responsibility unequivocally.

"In the absence of a responsible political system we run the grave risk of public cynicism and frustration, and of neglecting policies which could anticipate and to some extent preclude serious economic crises.

"The story of the Employment Act of 1946 suggests a need for more responsible policy-making in our national legislature. It also suggests that until we move in that direction, national economic policies will continue to be formulated by a kaleidoscopic and largely irresponsible interplay of ideas, interests, institutions, and individuals."

University of North Carolina PAUL N. GUTHRIE

Industry in Latin America. By George Wythe. 2nd ed. New York: Columbia University Press, 1949. Pp. xiv, 387. $5.00.

The appearance of the second edition of *Industry in Latin America* is not only a tribute to the merits of the original work but also a reminder to frustrated Hispanists that interest in the "Good Neighbor" republics runs somewhat deeper than the headlines which play up the frequent and not always peaceful changes in government. It is regretable that there are so few first-rate monographs on agriculture, commerce, finance, and other phases of Latin-American economies; for industry (i.e., manufacturing) cannot be considered the gravest of the problems which keep this area generally in the ranks of backward countries.

Actually, only sixteen pages of text have been added to this new edition; and the author acknowledges that he "has not attempted to change the main outlines of the book or to modify appreciably the original conclusions, which he still considers valid." Seven relatively short chapters are devoted to the "how" and "why" of industrialization in general, with illustrative material drawn from the entire region. The rest of the book (except for a fifteen-page conclusion) takes up the industrial development of the separate countries. The amount of duplication that results from this method of organization is appreciable. It would be grossly unfair to say that the "country" chapters furnish only a catalogue of coke ovens, tire factories, and cotton mills; but it seems to this reviewer that the relevant national data would hang together better if worked into expanded topical divisions—"Industry as the Way Out," "The Extent and Nature of Industrialization," etc.

It is still largely true, as a reviewer said of the first edition, that this is a "compendium . . . for those who want their facts and statistics raw and with a minimum of interpretive seasoning." Not that Wythe abhors interpretation and criticism. In the introductory chapters and again in the conclusion he attacks the "romanticism" of those who look for a cluster of blast furnaces the day after a

minister of economy makes a speech on national self-sufficiency. But the critical comments are frequently brief, sometimes cryptic, and scattered. Thus, the statement that "training in business and economics is also receiving attention" (which constitutes a paragraph) might be expanded into a well-documented exposition of the low estate of higher education. In the chapter entitled, "The Machine Learns to Speak Spanish and Portuguese," it is pointed out that most countries have laws establishing maximum hours of work, minimum wages, holidays with pay, and old-age and sickness insurance (p. 59). Only in the closing chapter (p. 368) do we learn that social and labor legislation has often impeded the progress of industry. Here, too, is the statement which should have been made much earlier: "In only a few communities in Latin America has any substantial proportion of the population become adapted to the mores of an industrial society."

The paucity of footnote references and the absence of a bibliography may discourage readers disposed to continue their study of Latin-American economics. Apparently, the Abbink report on Brazil appeared too late for inclusion; but reference might have been made to some of the theoretical studies of "deliberate industrialization," such as the work of Buchanan and Davis.

Duke University ROBERT S. SMITH

Arabian Oil: America's Stake in the Middle East. By Raymond F. Mikesell and Hollis B. Chenery. Chapel Hill: University of North Carolina Press, 1949. Pp. xi, 201. $3.50.

Problems pertaining to the petroleum of the Middle East are of major importance in the world economy. The presentation of these problems and American (United States) interest therein is of vital necessity, and an understanding of these problems and related facts is essential before conclusions can be reached and sound policy formulated. To date, confusion rather than understanding has dominated discussion and policy determination in the Middle East. For these reasons the reviewer recommended that the University of North Carolina Press publish *Arabian Oil: America's Stake in the Middle East.*

The stated purpose of this work is: (1) to provide an account of America's petroleum position in the Middle East in relation to the world's reserve and production; (2) to present the development of the Arabian oil resources by American firms as a case study in United States foreign economic policy with respect to a strategic material; and (3) to make suggestions for a United States foreign petroleum policy.

The first two of the above objectives are developed by the authors in a scholarly and lucid fashion in 96 pages of 6 chapters under the following topics: The World's Petroleum Position; The Middle East in World Oil Production; The Concessions and the Companies; American Petroleum Development in Bahkein and Saudi Arabia; The Impact of Oil on the Arabian Economy; and Middle East Oil and United States Foreign Policy. The reader is given an excellent visual aid in following this presentation by the inclusion on the end papers of a colored map which shows the location, area, ownership, and terms of the petroleum concessions in the Middle East.

The third stated objective with respect to suggestions for a United States foreign petroleum policy is pursued in a 19-page chapter entitled "Prospects and Conclusions." Due to the dynamics of the petroleum industry and related problems, the authors included an additional chapter in the main body of the text on developments between February 1948 and the date of publication. In addition, Appendix I contains a 30-page study on International Petroleum Economics written by Mr. Chenery. This latter analysis was rightfully excluded from the main argument of the text; however, its inclusion has greatly enhanced the value of the volume as an understanding of the topics considered is a necessary foundation to the central work.

In making suggestions for a United States foreign petroleum policy the authors indicate "tentative conclusions" to the following questions: "(1) Is direct government participation in foreign oil development necessary to achieve our petroleum objectives? (2) What can be accomplished by means of international petroleum agreements and joint commissions? (3) What should be the basic criteria for the determination of United States petroleum export and import policy?" The reviewer is refraining from indicating the conclusions reached to avoid the possibility that agreement or disagreement might preclude the reading of this book. The recommended policy, though limited in scope, is well thought through and presented. However, the authors' important contribution is the factual and analytical background for the understanding of "America's Stake in the Middle East."

More emphasis might have been placed on the quadrangular interest of the necessity of available Middle Eastern oil to Western Europe in place of Caribbean and South American supplies which are the logical sources for United States deficits. Further, the comment should be made that United States petroleum policy should be developed by government and the industry cooperatively. Such a procedure recognizes the mutual and reciprocal responsibilities and is more likely to result in a workable implementation.

Arabian Oil: America's Stake in the Middle East is recommended for reading and study to subscribers of this journal.

University of North Carolina OLIN T. MOUZON

The Atlantic Pact. By Halford L. Hoskins. Washington: Public Affairs Press, 1949. Pp. 104. $2.50.

This book, which evolved from several memoranda prepared by the author in his capacity as a member of the Legislative Reference Service of the Library of Congress, is an exceedingly useful outline of the development and implications of the Atlantic Treaty. It is well documented and the texts of the essential documents and a chronology of events relative to the Pact are given in the appendix. The first chapter outlines briefly the evolution of U. S. foreign policy to the Atlantic Pact. However, the author fails in this brief review to point up the contrast between U. S. isolationism in the interwar period and current American foreign policy, or to indicate the strength of isolationist sentiment which is still abundantly evident in this country. Chapter II contains a brief review of U. S.

experiences with alliances in the past, and in Chapters III and IV the author presents in concise form the recent historical background of the Pact. Only a few lines are devoted to the relationship of the European Recovery Program and the proposals for European economic integration to the Pact. This appears to the reviewer to be an important area for study. Following a brief analysis of the provisions of the Pact the author devotes a short chapter to the special security problems of members of the Pact as well as to those of other Western European nations which did not join. Dr. Hoskins then proceeds to raise a number of pertinent questions regarding the usefulness of the Pact, most of which he leaves unanswered. The final chapter is devoted to a discussion of the Arms Program which was designed as a first step in the implementation of the alliance.

This little book was not designed as a comprehensive work on its subject but rather "to present to the public . . . some of the more essential and significant aspects of the United States participation in the North Atlantic Alliance." In this purpose Dr. Hoskins has admirably succeeded.

University of Virginia RAYMOND F. MIKESELL

Economic Geography of the USSR. Edited by S. S. Balzak and others. New York: Macmillan Co., 1949. Pp. xlv, 620. $10.00.

Information on Soviet natural resources is encyclopedic and handled with scholarly research. Until this work became available, American students were dependent, for the most part, on travel reports and such reports were never very satisfactory since they reflected impressions and casual observations.

Better appreciation of this monumental work may be obtained if we view *Economic Geography of the USSR* in the same light as we would our own chamber of commerce releases. The latter types of publication are always glowing accounts of their communities and the aspirations of those communities. Nevertheless, we accept them as definitely informative.

The Soviet Union occupies a territory in the eastern part of Europe and northern and central Asia, more than 11,000 km. from west to east; and 4,500 km. from north to south. The area is one-sixth of the habitable area of the world and second only to that of the British Empire.

The USSR is washed by three great oceans, which form twelve seas; and two seas are found within its geographical limits. Water resources, water expanses, fish and marine life are the greatest in the world. The navigability of the river system is augmented by canals, and where the rivers flow northward, there is a distribution of heat in that direction. The hydromineral resources are interesting and some of them are said to have healing qualities.

Coal reserves are adequate and more reserves are appearing with the progress of extensive surveys and mineral inventories. A summary along these lines is revealing. Large reserves of high-grade iron ore have been found adjacent to coal fields; the economic significance of this combination is truly staggering and in the field of prediction, one would be inclined toward Hollywood superlatives. Polymetallic ores and rare metals, are for the most part, strategic in themselves and also precious in combination with other minerals and ores. The mineral list

is long and would be impressive if we mentioned only a few of those found within the boundaries: gold, copper, lead, zinc and tungsten. The USSR probably has first rank in oil, peat, iron ore, and potassium salts; and second in coal, manganese, phosphate, and apatite.

Charting industrial development from 1913 to 1938, industrial development has increased to the multiple of 9, whereas England and the United States show increases of 1.1 and 1.2 respectively.

We note with considerable interest that the Soviet Union has advanced in the studies of economic geography, and apparently this field of study is receiving the same dramatic attention as in the United States; and if we delete dialectics, the syllabus in a Soviet university classroom would not be essentially different from the syllabus in an American university classroom. It may be that the bridge to better American-Soviet understanding will be, in part at least, built on economic geography. Be that as it may, there has to be a start and we mark a very tangible beginning with the release of the American edition of *Economic Geography of the USSR.*

Moscow is described as one of the most beautiful cities in the world and other urban transformations are mentioned. Large masses of nomads have been induced to take up a sedentary mode of life; therefore, we have one segment of the human equation translated from a potential to an available resource. The biotic resource is handled in such a scholarly manner that many American geography professors would do well to study the technique employed in the classroom handling of this difficult subject.

The heart of the economic system is transportation and here the railways play a vital role. Prewar registration of 9,000 vehicles of foreign manufacture to something like 2,000,000, many produced in the Soviet Union, give us a great deal of information on the general direction of the economy of the Russian people.

Loyola University of the South ALEXANDER I. WARRINGTON

Monetary Management. By E. A. Goldenweiser. Committee for Economic Development Research Study. New York: McGraw-Hill Book Co., 1949. Pp. xiv, 175. $2.75.

Out of his long official experience with the Board of Governors of the Federal Reserve System, Dr. Goldenweiser has written a book which describes central banking processes and problems with such clarity and avoidance of non-essentials that it should serve well to reach a broad general audience and afford welcome supplementary reading for courses in money and banking. After an economical account of the policies of the Federal Reserve System in the face of the various historical exigencies he has given a clear-cut appraisal of the system's powers in relation to the demands upon it in the postwar situation.

The views are of a generally "orthodox" sort, and on the whole are marked by a notable saneness. That quality is epitomized for this reader by Dr. Goldenweiser's insistence that a monetary condition such as to contribute to economic stability is the primary desideratum and need not and must not be eschewed in favor of secondary considerations such as maintaining the market value of government securities.

The great fault of the book, in the reviewer's opinion, is its espousal of the Federal Reserve orthodoxy: "... no single guide ... for monetary policy"; commodity prices, security prices, capital flotations, and the structure of interest rates may each respectively at different times be "a leading guide" (p. 24). The least the multiple-guide advocate should do is to state clearly, for each of the list of potential guides, the conditions under which it would be the appropriate "leading guide"—and what is meant by "leading." Without such—or simpler—rules which in fact amount to a "single guide," we shall not be rid of the *ad hoc*, impressionistic approach which leaves the authority without strong defenses against demands that it cooperate in abuses of the sort which Dr. Goldenweiser wisely deplores.

University of North Carolina CLARENCE PHILBROOK

Wesley Mitchell and the National Bureau. By Arthur F. Burns. New York: National Bureau of Economic Research, 1949. Pp. 107.

Professor Burns' latest report is a tribute to the man who was the first holder of the American Economic Association's Francis A. Walker medal, and whose 1913 volume on *Business Cycles* is one of the outstanding works in the history of economic thought. It gives a brief account of Mitchell's life and contributions to economics, and explains how he came to emphasize his particular variety of economic research.

Economists who have long awaited Mitchell's successor to his 1927 volume will be especially interested in two quotations from letters. One, written when the author was in his thirties, states, "My world is the world of thought ... My danger in this realm is not from lack of vigor but from lack of caution." A quarter of a century later, caution has thoroughly prevailed. "I am not a rapid worker," wrote Mitchell in 1937, "and I do not like to publish materials which I have not had the time to work into as good form as I can."

Although Professor Burns is Mitchell's successor in the statistical work of the National Bureau, his remarks are concerned more with the sociological aspects and general methodology than with the statistical methodology of his predecessor's thought.

Indiana University HENRY M. OLIVER, JR.

Scholarships, Fellowships and Loans. By S. Norman Feingold. Boston: Bellman Publishing Co., 1949. Pp. 254. $6.00.

At a time when so many counselors, teachers, parents and students almost involuntarily look to federal funds as the only logical source of financial assistance for educational purposes, this book fills a special need. For the author has brought together a wealth of information on student aids not usually found in college and university catalogues. These aids include several thousand scholarships, fellowships and loans offered each year by nearly 300 administering agencies, only 7 of which are governmental units.

Among these various agencies are found business concerns, professional societies, educational foundations, labor unions, fraternal orders, religious organizations and service clubs. There are 5 categories of information presented for each

of the student aids described. These are: name and address of administering agency; qualifications required; funds available; special fields of interest and information; where to apply for information or application.

Use of the book is facilitated by a subject matter index, an alphabetical index by name of student aid and administering agency, and a cross reference of all the scholarships, fellowships and loans under 225 vocational goals and fields of interest. The directory is prefaced by an informative and useful author's foreword. This is unfortunately followed by a well-intentioned, but somewhat less useful section entitled "Planning Your Career."

This valuable reference book should be made readily available to students in every high school, college and university library. In addition, it should be kept within easy reach whenever and wherever general counseling work and guidance activities are conducted.

University of North Carolina ARTHUR M. WHITEHILL, JR.

Wartime Production Controls. By David Novick and others. New York: Columbia University Press, 1949. Pp. 441.

This book is "a critical appraisal of the techniques of production control devised by the War Production Board and its predecessor agencies during the war years 1940 to 1945" (Preface). The authors—all active workers in this phase of our recent war effort—have approached their subject from two closely related standpoints. First, it is their earnest view that "if we fight another war, the drain on the economy will be greater, the time in which to prepare shorter, and the need for industrial control more acute" (p. 13). It is this thought that makes it worthwhile to them to investigate closely the historical record and make a contribution toward an improvement of our next war effort (if or when).

Second, it is their emphatic opinion that shortcomings in the control of production during the war were not the result of failures of policy. "Our experience in two wars clearly shows that the real problem is neither what to do (policy) nor how much to do. . . . The real problem is *how to do it*; how to achieve the determined goals; how to fulfill the necessary programs" (p. 4).

Apart from two introductory chapters and two concluding chapters containing conclusions and recommendations, this volume consists of two kinds of discussions. The first half is a discussion of the overall development of control programs and techniques from a historical standpoint. Here the emphasis is upon the evolution of one organization or approach to the general problem from the one preceding, and how the new solution frequently was launched with almost complete disregard of the lessons that should have been learned from the evolution itself. This discussion of the historical development of production control from small beginnings to very comprehensive operation ends with a discussion of the controlled materials plan and the important administrative problems still unsolved at this stage.

The second half of the volume consists of series of "case studies" in war-time production controls. Here control programs and techniques are examined at closer range and in much greater detail. Included among these studies are lumber,

tires, construction, and inventories. Again the emphasis is upon the administrative failure to learn from past experience.

For the student who desires a fairly full and well-written account of the development and operation of our production control program during the war this volume will well repay careful study. It will long be a useful work from the standpoint of its objective superstructure.

On the other hand, those who look into this work hoping to find some aids to their thinking on matters of administration will suffer a major disappointment. Administration is first, foremost, and all the time a problem of interpersonal cooperation. There are no human beings in this book. It is true that the term personnel is frequently used, but almost always in the same breath with desks and chairs.

By virtue of this absence of human beings the authors are able to make a complete separation between policy and administration—a separation most useful to them because it allows them to ignore policy. Administration thus becomes merely the mechanical doing of things that policy has decided. This is highly artificial as anyone with any background in Washington or in administration well knows. It makes administration too narrow and policy too broad—and it does both of these things by drawing a verbal line of demarcation where there is no such line out in the real world. The more or less mechanical carrying out of decisions very frequently consists of a constant realignment of policy. In turn the difficulties of carrying out decisions are often predetermined by the nature of the decision itself—which decision is made nonetheless because of the pressure-context within which it is made. Pressure, incidentally, is a word that scarcely appears in the pages of this volume.

Let us repeat; the authors have done a workmanlike job in their historical and methodological work. But the reader must not expect too much. And he must at the same time interpret the conclusions and recommendations of the book in the light of its obvious limitations.

University of Georgia HOWARD R. SMITH

STATE REPORTS

ALABAMA

Work stoppages in the steel and coal industries during the fourth quarter of 1949 resulted in substantially reduced economic activity in Alabama. Due to the unique position of steel and coal in the state's economy, production activity was particularly hard hit. The composite index of industrial production for October 1949, prepared by the University's Bureau of Business Research, fell to 93 per cent of the 1935–39 average month; this level was 86 points below that of September. With the settlement of the stoppages in November, the production level climbed back to 138 at the end of November, but remained 41 points below September. In contrast, the index of industrial production for the nation as a whole fell only 8 points in October to 166, and by November production levels were only slightly below those of September, the last month of 1949 not substantially affected by work stoppages.

On the basis of work stoppages which began in October and November, the Alabama State Department of Labor estimated that there were 45,957 workers directly involved in stoppages during the fourth quarter. The loss of man-hours directly attributable to these stoppages was 12,605,296. The large number of workers involved amounted to nearly one-quarter of total manufacturing employment in the third quarter of 1949. The impact of the stoppages tended to be concentrated in the durable goods industries and in the Birmingham metropolitan area and those coal mining counties contiguous to Jefferson in which Birmingham is located.

Preliminary estimates indicate a fourth quarter decline of 7 per cent in manufacturing employment in the state. It is, however, important to note that the nondurable goods industries were expanding; employment in these industries rose nearly 5 per cent over the third quarter. Employment in durable goods industries fell an estimated 17 per cent from the third quarter.

December figures are not yet available, but retail trade activity during October and November held up well in view of the widespread unemployment and loss of income which existed during those months. The estimated dollar volume of retail sales, based on sales tax collections, for October was 3.8 per cent above that of September (somewhat less than seasonally expected), and November sales were down only 3.8 per cent (also less than seasonally expected). Both months, however, showed sales which were substantially below their year-ago counterparts. Department store sales (dollar volume) also showed up favorably during the quarter. Large increases in credit sales were important in accounting for the relatively favorable trade picture which existed during the fourth quarter.

Construction activity in Alabama made substantial gains during the fourth quarter. The value of contracts awarded in November reached its highest level since December 1942 and was 209 per cent above November 1948.

Farm income for the fourth quarter was up sharply from the third quarter largely because of increased cash receipts from cotton marketing. But October

and November farm income was 31 per cent below the corresponding months of 1948. Alabama's farm income did not hold up well in relation to that for the nation as a whole; farm income for the United States for October and November was down 13 per cent from the year-ago figures. Prices received by Alabama farmers continued to decline during the fourth quarter. Preliminary estimates show that fourth quarter prices were 4.4 per cent below those for the third quarter and 8.7 per cent below those for the fourth quarter of 1948.

University of Alabama LANGSTON T. HAWLEY

KENTUCKY

Early in January the legislature approved a record two-year budget totaling $131,000,000, exclusive of highway and unemployment compensation funds. The budget which was passed as presented by the governor does not require new sources of revenue. Education will receive the largest amount, constituting 54.5 per cent of the total; health and welfare are next and account for 31.5 per cent. Following the practice of the past biennium, the Building Commission is authorized to determine the public buildings to be constructed during 1950–1952. The appropriation was increased from $10,000,000 two years ago to $15,000,000 for the current period.

At the election last November the voters approved a constitutional amendment that abolishes the $5,000 salary limit for public officers. As a result of this revision the limit on the compensation for judges and commissioners of the Court of Appeals, state-wide officers and mayors of first-class cities is raised to $12,000; the maximum for circuit judges becomes $8,400 and for all other officers $7,200. Under a 1947 decision of the Court of Appeals a distinction was made between officers and employees of the state and the constitutional limitation held to apply only to the former. The faculty and staff of the University of Kentucky, together with other employees of the state, were thus exempt from the limitation.

During the past four years, under a program sponsored by the Kentucky Chamber of Commerce, a total of 238 new industrial plants have been brought into the state. This represents an additional capital investment of $200,000,000 to $300,000,000 and an increase in annual payrolls of $60,000,000. The state has benefited also from the relocation of plants by companies seeking greater decentralization. Industrial development was further stimulated by expansions of 11 existing plants amounting to $34,491,000 and with an estimated $9,837,000 annual increase in payrolls. Recently the state Agricultural and Industrial Development Board in cooperation with the state Chamber of Commerce published the Kentucky Industrial Directory. This is a complete guide with the names and locations of plants and their products and constitutes a summary of the status of manufacturing in Kentucky. The board is now preparing a report that will be a summary of the general economic resources of the state.

As a sequel to the revision of the tax laws in the 1949 session of the legislature the Department of Revenue has developed a systematic training program for tax assessors. A tax manual has been prepared. A staff of technicians equipped to handle the valuation of various types of property has been recruited for work

in the state office. In addition a field staff has been developed that will maintain continuous contact with local assessors. Also significant is the series of schools being conducted for local tax men. These include a special school for new assessors, an intensive two-weeks course on the use of the new manual, and area schools dealing with technical aspects of appraisal procedures. Of interest also in the tax field are two 1949 studies of the Legislative Research Commission. These are "The Assessment Problem and School Equalization Aid" and "The Inequality of Assessments." Another of the recent economic studies of the commission is "Strip Mining in Kentucky."

University of Kentucky RALPH R. PICKETT

LOUISIANA

Foreign commerce through Louisiana ports declined during the late summer and early fall months of 1949, the latest period for which data are available. The several month lag in the release of foreign trade statistics plus time which must be allowed for processing of materials for publication prevent current statements on this phase of the state's economy. The decreases which were registered in Louisiana's waterborne foreign commerce between June and August were not only absolute declines, but also decreases in the proportion of the nation's trade handled by these ports. Exports through Louisiana ports decreased from 11.6 per cent of national exports in June to 9.3 per cent in July to 7.4 per cent in August. Imports changed less for the state's ports handled 9.1 per cent of national imports in June, 8.4 per cent in July, and 8.8 per cent in August. These changes represented loss of status by Louisiana ports in the national export picture. This was a loss, in part, of the very favorable relative gains shown in this phase of activity during 1948.

Between July and November 1949, the index of business activity (1937–39 = 100, adjusted for seasonal) in Louisiana rose from 189.3 to 197.5. Some of the economic barometers indicated gains, others losses. Postal receipts in November were up 19.7 per cent over July, and 13.3 per cent over November 1948. Bank debits in November were 15.4 per cent over July, but 4.1 per cent lower than in November 1948. On the other hand, electric power consumption was off 10.9 per cent in November from the July level, but up 6.3 per cent from the previous November. Freight carloadings showed increases between July and November, but declined as compared to the same month of 1948. State collections in the last 6 months of 1949 were 13.9 per cent greater than for the same period of 1948. Specific taxes for which collections increased most markedly were: gas gathering taxes, 50.3 per cent; severance taxes, 30.8 per cent; and tobacco taxes, 28.7 per cent. Sales taxes in this period were 2.3 per cent above collections in the last six months of 1948. Employment in Louisiana in November 1949 was estimated to be 4.2 per cent less than in November 1948. However, this decline was not considered to be as large as that for the nation as a whole because a comparison with national employment indices shows greater declines than those for Louisiana.

According to the recently released 1947 *Census of Manufacturers*, the number of manufacturing establishments in the state had increased over the 1939 number

by 34 per cent, the number of production workers 58 per cent, wages in manufacturing in 1947 were 321 per cent above 1939, and the value added by manufacturing was 250 per cent greater. For purposes of comparison, the rates of increase for the South as a whole were: establishments, 50 per cent; production workers, 50 per cent; wages, 273 per cent; and value added by manufacturing, 244 per cent.

Louisiana State University W. H. BAUGHN

MISSISSIPPI

The Legislative Highway Planning Committee, created by the 1948 legislature, made its report in mid-October and proposed that a special session of the legislature be called to consider it. The report was based on a comprehensive analysis of the highway transportation system in Mississippi prepared by the engineering staff of the committee under the supervision of engineers loaned to the committee by the Automotive Safety Foundation (*Journal*, January 1949). The survey was financed jointly by the state and the Bureau of Public Roads.

In addition to recommendations relative to highway safety, traffic engineering and the development of standards, the engineering staff recommended the reclassification of the present road and street network into: (a) a state highway system of 5900 miles of rural state highways and 600 miles of urban extensions of state highways, all under the direction of the State Highway Department; (b) a state aid system of 13,600 miles of secondary rural feeder routes under direct county administration with state assistance and guidance; and (c) a city arterial system of 1215 miles of primary city arterials selected jointly by the state and individual cities. The annual costs of the program (exclusive of debt service on bonds outstanding) were set at $73.1 million, $59.6 million, or $53.4 million depending on whether a 10-year, 15-year or 20-year program were adopted. Accompanying the above were extensive recommendations concerned with the management of the program, such as reorganization of the State Highway Department (including the creation of a state aid division to administer state-county relationships), the employment of registered professional engineers in all counties, and the required submission for state approval of *all* matters pertaining to state aid.

In its report, the Highway Planning Committee recommended that the state highway system be increased to 8600 miles, including certain municipal streets now used and marked as state highways and certain additional highways meeting the engineering standards of state highway-system roads; that a state aid system of 11,650 miles of rural highways be designated, to be financed with state funds but administered locally by the county boards of supervisors; that the state gasoline tax of 6 cents per gallon be increased to 8 cents per gallon, $\frac{3}{4}$ cent of the increase going to the State Highway Commission and $1\frac{1}{4}$ cents going to the counties for state-aid roads (the counties already receive $2\frac{1}{2}$ cents of the 6 cent tax), the latter to be supervised by the highway commission and a state aid executive board composed of three county supervisors and the chief engineer of the highway department; that counties be authorized to issue bonds against

anticipated receipts; and a number of other recommendations relative to highway safety, civil service in the highway department, research, et cetera.

Another recommendation of the committee was that the legislature appropriate \$2,250,000 for the settlement of a long standing dispute between the state and some two dozen counties and 10 municipalities arising over claims for reimbursement for funds spent by the local units on roads now in the state system. The local units last year won a sweeping decision in the Mississippi Supreme Court (*Journal*, April 1949) but had agreed to a settlement of only 10 cents on the dollar.

The legislature was convened in extraordinary session to consider the report on November 14. It adjourned some five weeks later on December 17 with an unfinanced road program. It passed a road designation bill pegging the state highway system at 8600 miles, including 600 miles of city streets, and approving an 11,650 mile state aid rural road construction program. Under the bill, the governor is authorized to appoint an engineer, with two assistants and other "necessary personnel," to head the newly created state aid division in the highway department. This division is to supervise the state aid program. The counties are required to employ full time engineers, jointly or separately, to draft and supervise road projects. The counties are also required to put up 10 per cent matching funds (which can come from the 2½ cents now allocated to them from the present 6 cent tax). The anticipated state funds to finance the program are to be placed in the state treasury and allocated to county projects only after approval by the state aid engineer. The legislature was unable to agree on any method of financing the designated program and deferred action on this most important phase until the regular session in January 1950.

The legislature did appropriate the recommended \$2,250,000 to settle the compromise claims of the local units mentioned above.

University of Mississippi DAVID MCKINNEY

NORTH CAROLINA

North Carolina has entered the New Year with her major industries—textiles, tobacco, and furniture—operating at a high level. Practically all traces of the recession of 1948–49 in the highly important textile field have disappeared. Building is at boom levels. Everywhere one hears and feels prosperity. Even the establishment of the 75-cent minimum wage is being taken in stride by industries which a few years ago were well-known for low wages and which even now have a good proportion of workers that will be affected by the increase.

Last fall's cotton crop was much smaller than usual, and agriculture as a whole is not so prosperous as a year ago. Since, however, the major cash crops of the state—tobacco and cotton—are now under acreage control, there is no pessimism even here.

State tax yields, although still high, are running below estimates, and the state has had to borrow in anticipation of general fund revenues for the first time in a number of years. This situation has caused some anxiety. It is hoped that income tax payments in March will be heavy enough to offset recent declines.

Davidson College C. K. BROWN

SOUTH CAROLINA

With the installation of a fumigation plant at the North Charleston Terminals, the State Ports Authority and the state is assured of the job of receiving about three-fourths of the cotton imports of the United States. Since most of this cotton is used in mills in the Carolinas, it is very convenient and less costly to have such a short rail haul from shipside.

It appears that certain items of import cannot come through ports which do not have fumigation facilities. One unit of a fumigation plant was put into operation about a year ago. Recently, a new unit was added giving the entire plant a capacity of 100 bales, weighing 750 pounds each, an hour. Already shipments of Egyptian and Peruvian cotton have been made through the port. In addition to cotton, the plant will fumigate jute, hemp, cotton waste, linters, and rayons.

Recently, the Bureau of Emtomology of the Department of Commerce has assigned a full-time representative to Charleston to supervise fumigation. Mr. C. P. Daley has had 28 years of service with the department in the United States, Puerto Rico, and Mexico and seems well qualified for the job by experience.

It is estimated that more than 30,000,000 pounds of long staple cotton will be imported through Charleston during the next 12 months. Along with these shipments will come other import and export items which probably would not have flowed through this port without the cotton. The trade should materially increase the movement of goods throughout the state and, therefore, affect its economy.

The Citadel M. S. LEWIS

TENNESSEE

Tennessee enters the new decade optimistic of the future with her house in order. Not only has there been phenomenal growth during the past ten-year period, but the immediate road ahead seems bright and smooth operation is forecaste.

The average income for each person in the state has increased since 1941 from $295 to $955. There has been a 50 per cent increase in industry, primarily in rayon and aluminum plants, and due to mechanized farming, agriculture has more than tripled. There has been considerable development in the state's home industries due to the advantages of cheaper power than elsewhere in the country, proximity to such natural resources as coal and iron, and possession of several staple farm crops.

More than 27,000 jobs have been created in the new post-war industries scattered throughout the 600 to 700 new plants. The number of jobs created would be more if the expansion of old plants was considered. Cash farm income was up in Tennessee in 1949 over 1948. Thus continues a trend of more than five years standing—each year being higher than the last. This industrial and agricultural expansion together with sound state financing has placed Tennessee among leading southern states.

Conservative prophets foresee a constant increase in the state's industrial

capacity. Their reasoning is based on many factors. During 1950 the state-wide hospital construction program "will move along as fast as available money will permit." The way has already been cleared for the state to give financial aid for local hospital construction with a late 1949 state supreme court ruling upholding the constitutionality of the 1949 hospital act. Then there will be the new $6,000,000 atomic research hospital planned for the University of Tennessee at Knoxville.

Approximately $2,000,000 will be expended for the building and expansion program planned at the state institutions including state hospitals and charitable institutions. Tennessee is spending $59,000,000 a year for education from grade school through college. Included in this figure during 1950 will be a continuation of the building and expansion program at the state colleges and other state schools. The state is also advancing rapidly through Oak Ridge and an experimental wind tunnel project at Tullahoma in matters of scientific investigation and national security.

In the immediate future there are tremendous developments coming to Tennessee. Among others are the $100,000,000 air engineering center at Camp Forest, the huge expansion at Oak Ridge and the New Johnsonville steam plant.

During 1949, approximately $10,000,000 was spent on the vast rural road program of the state. It is predicted that if this pace is continued for another three years that "the State will have at least 100 miles of rural roads in every county in the State." This will be a great step forward.

State resources are still above the estimates and the program of expansion seems fairly secure. State revenue collections totaled $69,174,248 for the first half of the 1949–50 fiscal year as compared with $66,790,437 for the same period a year ago. The difference in these figures is not as great as mere subtraction of the two figures would indicate however. During this year's six months report there is included approximately $290,000 in gasoline taxes paid under protest pending litigation. Another factor is a change in bookkeeping practice. The December 1948 sales taxes were not all reported in the December report last year whereas the December 1949 figures are all included in the December report and none credited to January as they were a year ago. This same carry over of some December collections was followed with the money collected from alcohol license fees a year ago, but not this year.

Tennessee continues to march forward. There is confidence in the future. Everything within the economy of the state points to continuation into 1950 of the full employment, peak production and high incomes that have characterized most of the years since the end of the war.

George Peabody College For Teachers JAMES E. WARD

VIRGINIA

Business conditions in Virginia, following the national pattern, staged a rapid recovery in the latter months of 1949, in spite of the injurious effects of the coal strike. Industrial production gained momentum during the last quarter with some industries, such as paper and rayon, operating at near-capacity levels at

the end of the year. Employment held at about the same level for the 6 months with some gains and some losses. Increase in construction contracts continued, especially in shelter buildings due to the liberal financing terms for this type of construction. The new minimum wage law is expected to affect considerably several of the industries. According to the Department of Labor, some of the industries which will feel the effects of the law are work clothing, power laundries, hosiery, furniture, and lumber. Trade within the state has improved considerably in most lines, especially women's apparel, home furnishings, radios, television, and musical instruments. Agricultural conditions remain good in spite of a drop in farm income and declining prices in certain areas. Several forecasters predict that general business conditions in Virginia will continue good in all segments of industry well into 1950.

* * * * *

Several significant events in state government in recent weeks which will have a great bearing upon economic conditions in the future are (1) the report of the Tax Study Commission, (2) the governor's biennial budget to the legislature, (3) certain emergency recommendations of the incoming governor, and (4) the report of the comptroller on the finances of the state for the fiscal period ending June 30, 1949.

The report of the Tax Study Commission carried 52 recommendations on Virginia fiscal policies. Among the more significant ones are (1) a quadrennial general revaluation of real estate in both the counties and the cities, (2) changes in the segregation of tax sources for state and local purposes to provide larger revenues to the localities, (3) the construction and maintenance of primary highway expansions in municipalities by the State Highway Department, (4) the locality contribute to the support of its schools a sum equivalent to a true tax rate of 80 cents per $100 valuation in order to participate in an educational equalization fund provided out of state funds, (5) the entire matter of the institutions of higher learning be studied by a commission, and (6) a State Commission on Local Debt be created for the purpose of providing information to political subdivisions on planning, preparation, and marketing of its indebtedness.

The governor's biennial budget to the legislature calls for a total of $597 million for 1950–1952, an increase of approximately $66 million over the 1948–1950 biennium. Some of the more important recommendations were (1) an allotment of $45 million for school construction aid, of which $30 million would be made available in 1950; (2) an increase of $13.6 million for public school operation and teacher retirement; (3) a drop of $32 million in capital outlay expenditures from the previous biennium; (4) the setting up of an additional $35 million in allotments which may be made only if the expenditures do not create a deficit in the treasury; and (5) an estimated increase of $10 million in revenue receipts due to certain tax increases. It is significant that this budget calls for approximately $200 million for the direct credit of Virginia's counties and cities. By July 1, 1950 the surplus is expected to be $26 million. However, the budget carries a recommendation that $15 million of this be allocated to aid local school construction.

The incoming governor, in his inaugural address, made two emergency recommendations. First, he recommended emergency legislation to appropriate $30 million as outright state grants for school construction "at the earliest possible moment" and $15 million for 1951–1952. Second, that $14 million be transferred from the State Bond Sinking Fund, which has an excess over legal requirements, to the State Literary Fund. This would increase immediately the funds available for school construction loans.

According to the annual report of the state comptroller for the fiscal year ending June 30, 1949 the state finances are in a very healthy condition. Total revenues amounted to $292 million, an increase of $20 million over 1948. The largest increase was in the corporate income tax from $12 million to $22 million. The largest single source of income was $87 million from the sale of alcoholic liquors, and the second largest $38 million from motor vehicle fuel tax. Total expenditures were $274 million. The largest single expenditure was $72 million for alcoholic liquors, and the second largest was $69 million to education. The surplus at the end of the year from the year's operations was $19 million.

University of Richmond HERMAN P. THOMAS

PERSONNEL NOTES

W. H. Baughn, associate professor of economics at Louisiana State University, has been appointed Louisiana correspondent for *The Southern Economic Journal.*

Robert Banzhaf has been appointed instructor in economics and commerce at the University of Chattanooga.

Finley E. Belcher, formerly on the staff of the University of Mississippi, has been appointed assistant professor of accounting at Florida State University.

Gorden E. Bell, who has been serving as teaching assistant in accounting at the University of Florida, is teaching accounting at High Point College during the second semester.

Thomas S. Berry is on leave of absence from Millsaps College while serving as economist for the Richmond field office of the Public Housing Administration.

Robert W. Bradbury, formerly on the staff of Louisiana State University and more recently of Pan-American Airways, has been appointed associate professor of economics at the University of Florida.

Louis K. Brandt, professor of economics at the University of Mississippi, was elected to the board of editors of *The Southern Economic Journal* at the last annual meeting of the Southern Economic Association.

E. Y. Breese has resigned from the faculty of the School of Industrial Management at the Georgia Institute of Technology.

James E. Chapman has been appointed assistant professor of business administration at the Atlanta Division, School of Business Administration, University of Georgia.

Jack L. Codding, formerly instructor in accounting at Emory University, has been appointed to a similar position at the University of Florida.

H. B. Cooley, formerly on the staff of University of West Virginia and more recently a management consultant in New York, has been appointed associate professor of management at Florida State University.

Dudley D. Cowden, professor of economic statistics at the University of North Carolina, has been appointed a member of the technical advisory committee of the American Statistical Association to assist the Bureau of Labor Statistics, U. S. Department of Labor, in revising the wholesale price index and the consumers price index.

William J. Crawford has been appointed research assistant in the Bureau of Business Research of the University of Kentucky.

Overton A. Currie is serving as part-time instructor at Mississippi Southern College.

C. C. Dawson, who has been head of the Division of Commerce at Mississippi Southern College, is now completing his graduate work at the University of Kentucky.

O. D. Emerson, Jr., has been appointed lecturer in accounting at Mississippi Southern College.

Emile P. Grenier has resigned as associate professor of economics at the University of Mississippi because of health.

J. C. Goosman has been appointed instructor in business administration at Louisiana State University.

George Heather has resigned as head of the Department of Commerce, Florida State University, to become dean of the Division of Business Administration at Texas Technological College.

Victor C. Heck, professor of economics at Mercer University, has received a grant from the Carnegie Foundation for the Advancement of Teaching to conduct a survey of industrial growth of Georgia for the period from 1939 to 1949.

Clarence Heer, Kenan professor of economics at the University of North Carolina, was on leave of absence during the last winter quarter to serve as budgetary consultant to the Korean Division of the Economic Cooperation Administration.

G. E. Henry has been appointed instructor in accounting at Louisiana State University.

Louis R. Hoffman has been appointed instructor in transportation, College of Business Administration, University of Tennessee.

M. K. Horne, Jr., dean of the College of Business Administration, University of Mississippi, was elected vice-president in charge of membership of the Southern Economic Association at its last annual meeting.

Elmo Jackson has been granted a leave of absence for a year from his position as associate professor of economics at the University of Florida to conduct a research study on the tobacco industry under the auspices of Vanderbilt University.

Edward E. Judy has been promoted to associate professor of accounting in the College of Business Administration, University of Tennessee.

Edward E. Kern has resigned as research associate in agricultural economics at Louisiana State University to accept the appointment as assistant professor of agricultural economics at Mississippi State College.

Clarence E. Kuhlman has been promoted to professor of transportation and public utilities in the College of Business Administration, University of Tennessee.

G. P. W. Lamb has resigned from the faculty of the School of Industrial Management at the Georgia Institute of Technology.

M. S. Lewis, head of the Department of Economics and Business Administration at The Citadel, has been appointed South Carolina correspondent for *The Southern Economic Journal.*

James A. McDaniel, formerly a graduate student at Louisiana State University, has been appointed assistant farm management specialist in the Agricultural Extension Division of Louisiana State University.

John B. McFerrin, professor of economics at the University of Florida, was re-elected secretary-treasurer of the Southern Economic Association at its last annual meeting.

Clifton Maxwell is now instructor in accountancy at the University of Mississippi.

L. J. Melton, formerly at Delta State Teachers College, has been appointed instructor in economics at Louisiana State University.

Marshall E. Miller has resigned as research associate in agricultural economics at Louisiana State University to accept a position as agricultural economist with the Production and Marketing Administration, U. S. Department of Agriculture.

R. J. Nixon has been appointed instructor in accounting at Louisiana State University.

John P. Owens has resigned as instructor in economics at Louisiana State University to accept a position as associate professor of economics at the University of Houston.

J. W. Parsons has been appointed instructor in business administration at Louisiana State University.

Richard C. Plummer has been appointed visiting professor of business administration at Rollins College, instead of the University of Miami as reported in the January issue of this journal.

Gerald A. Porter has resigned as professor of office administration at the University of Mississippi to accept a position at the University of Oklahoma.

John C. Redman, associate professor of agricultural economics at Mississippi State College, is on leave of absence to finish the requirements for his doctorate at the University of Kentucky.

Ross Robertson has been promoted to associate professor of economics in the College of Business Administration, University of Tennessee.

N. R. Roos has been appointed instructor in accounting at Louisiana State University.

W. D. Ross, formerly at Duke University, has been appointed associate professor of economics at Louisiana State University.

R. Bob Smith has been appointed instructor in accounting at Florida State University.

Felix Stanley, formerly with the Production and Marketing Administration of the U. S. Department of Agriculture has been appointed associate professor in research and teaching farm management at Louisiana State University.

Bruno K. Suviranta, professor of economics, University of Helsinki, Finland, was visiting professor of economics at the School of Business Administration, Emory University, for the Winter Quarter, 1950.

D. A. Tate, formerly assistant professor of management at the University of Utah, has been appointed to a similar position at Florida State University.

George E. Tornwall has been appointed instructor in accounting at the University of Florida.

D. C. Townsend has been appointed instructor in economics at Louisiana State University.

M. L. Townsend has been promoted to associate professor of business law in the College of Business Administration, University of Tennessee.

B. F. Trimpe has been promoted to associate professor of marketing in the College of Business Administration, University of Tennessee.

N. M. Vincent has been appointed instructor in business orientation courses at Florida State University.

James E. Ward, professor of economics at George Peabody College for Teachers, was elected vice-president in charge of program of the Southern Economic Association at its last annual meeting.

David McCord Wright, professor of economics at the University of Virginia, was elected president of the Southern Economic Association at its last annual meeting.

The following names have been added to the membership of the Southern Economic Association:

Merton B. Badenhop, Department of Agricultural Economics, University of Tennessee, Knoxville, Tenn.

Andrew J. Bartley, 106 Peele Hall, N. C. State College, Raleigh, N. C.

William H. Baughn, College of Commerce, Louisiana State University, Baton Rouge, La.

Karl A. Boedecker, School of Business Administration, University of Tennessee, Knoxville, Tenn.

Howard J. Bonser, Department of Agricultural Economics, University of Tennessee, Knoxville, Tenn.

J. Ray Cable, John B. Stetson University, Box 573, DeLand, Fla.

Lewis J. Carey, P. O. Box 1278, State College, Miss.

G. B. Clark, 901 McCown, Jefferson City, Tenn.

Joseph H. Clark, 2822 Fifth Avenue, Knoxville, Tenn.

Clyde J. Crobaugh, School of Business Administration, University of Tennessee, Knoxville, Tenn.

Ben F. Curry, Box 99, University of Richmond, Va.

Leon A. Dale, College of Business Administration, University of Florida, Gainesville, Fla.

W. L. Edwards, Carson-Newman College, Jefferson City, Tenn.

Beecher Flanagan, East Carolina Teachers College, Greenville, N. C.

L. B. Freeman, Box 94, Dahlonega, Ga.

Nicholas Georgescu-Roegen, Box 59, Vanderbilt University, Nashville 4, Tenn.

Emory Q. Hawk, Birmingham-Southern College, Birmingham, Ala.

G. P. W. Lamb, Georgia School of Technology, Atlanta, Ga.

Arthur W. Leche, Eastern State Teachers College, Richmond, Ky.

Wendell M. Lewis, Box 412, Ashland, Va.

Donald A. Ludwig, Clemson Agricultural College, College Hotel, Clemson, S. C.

L. deR. MacMillan, Economics Department, Duke University, Durham, N. C.

Alexander J. Morin, Department of Economics, Fisk University, Nashville 8, Tenn.

Richard L. D. Morse, 214 Science Building, Florida State University, Tallahassee, Fla.

John P. Owen, School of Business Administration, University of Houston, Houston 4, Tex.

Martin D. Palm, College of Commerce, Tulane University, New Orleans 18, La.

Daniel A. Preston, University of Chattanooga, Chattanooga, Tenn.

Edward Schneider, 333 Parkland Place, S.E., Washington 20, D. C.

Annette K. Seery, 518 S. Clay Avenue, Kirkwood, Mo.

Curt Victorius, Guilford College, Guilford College, N. C.

Arthur G. Vieth, 518 Angenette, Kirkwood, Mo.

Claude Walker, 28 Sheppard Street, Raleigh, N. C.

B. F. Wheless, Sullins College, Bristol, Va.

Wilson E. Williams, Box 96, Agricultural and Technical College, Greensboro, N. C.

C. B. Wray, 2326 Beecher Road, Atlanta, Ga.

NOTES

THE SOUTHERN ECONOMIC JOURNAL

Financial Statement for the Fiscal Year Ending October 31, 1949

Cash Balance, November 1, 1948			$1,283.89
Income:			
Consolidated University of North Carolina			
Annual Grant for 1948–1949	$1,000.00		
Special Grant for 1948–1949	1,000.00		
Annual Grant for 1949–1950	1,000.00		
Total Grants		$3,000.00	
Southern Economic Association			
Annual Membership Fees	1,233.00		
Institutional Membership Fees	8.00		
Total Membership Fees		1,241.00	
Subscriptions to Journal		1,495.50	
Miscellaneous Sales of Journal		275.34	
Advertising			
Current Fiscal Year	976.28		
Receivables	340.00		
Total Advertising		1,316.28	
Total Income			7,328.12
Total Cash Balance and Income			8,612.01
Expenses:			
Printing the Journal			
January 1949 issue	939.00		
April 1949 issue	1,225.21		
July 1949 issue	1,215.27		
Payable October 1949 issue	1,131.40		
Total Journal Printing		4,510.88	
Other Printing		40.50	
General Expense		106.90	
Postage, Telephone and Telegraph		223.42	
Supplies		135.02	
Salaries		1,046.90	
Refunds		6.00	
Purchase Back Copies of Journal		36.75	
Total Expenses			6,106.37
Balance, October 31, 1949			$2,505.64
Balance Represented by			
Cash		3,297.04	
Accounts Receivable		340.00	
		3,637.04	
Less Accounts Payable		1,131.40	
			$2,505.64

G. T. Schwenning
Managing Editor

SOUTHERN ECONOMIC ASSOCIATION

Receipts and Expenditures for the Fiscal Year Ended October 31, 1949

November 1, 1948, *Cash on Hand*			$937.93
Receipts:			
Annual Memberships		$1,682.00	
Institutional Memberships		20.00	1,702.00
			$2,639.93
Expenditures:			
Expenses of the Association			
Postage	$39.00		
Printing	82.04		
Supplies	15.53		
Travel	57.35		
Miscellaneous	56.95	250.87	
The Southern Economic Journal		1,241.00	1,491.87
Cash on Hand, October 31, 1949			1,148.06
			$2,639.93

JOHN B. MCFERRIN
Treasurer

* * * * *

President David McCord Wright has appointed the nominating committee for the 1951 officers of the Southern Economic Association. The committee is composed of Dr. Rutledge Vining, University of Virginia (Chairman), Dr. Joseph J. Spengler, Duke University, and Dr. Hubert F. Stepp, College of Charleston. All members of the Association who wish to suggest possible nominees to this committee are invited to do so not later than August 15.

The 20th annual conference of the Southern Economic Association will be held at the International House in New Orleans, Louisiana on November 10–11, 1950. Dr. Gerald E. Warren of Tulane University is in charge of local arrangements.

JOHN B. MCFERRIN, *Secretary-Treasurer*
Southern Economic Association

BOOKS RECEIVED

Labor-Management Relations: A Research Planning Memorandum. By John B. Turnbull. New York: Social Science Research Council, 1949. Pp. ix, 112. Paper, $1.25.

Rural America and the Extension Service: A History and Critique of the Cooperative Agricultural and Home Economics Extension Service. By Edmund de S. Brunner and E. Hsin Pao Yang. New York: Bureau of Publications, Teachers College, Columbia University, 1949. Pp. xii, 210. $3.00.

Monetary Management. By E. A. Goldenweiser. New York: McGraw-Hill Book Co., 1949. Pp. xiv, 175. $2.75.

Total Business Fluctuations. By Montgomery D. Anderson. Gainesville, Florida: Kallman Publishing Co., 1949. Pp. xi, 148. $3.75.

Wartime Economic Planning in Agriculture: A Study in the Allocation of Resources. By Bela Gold. New York: Columbia University Press, 1949. Pp. 594. $6.75.

Cotton's Way Forward. By M. K. Horne, Jr. University: Bureau of Business Research, University of Mississippi, 1949. Pp. xi, 106. Paper, $1.00.

Two Memoirs—Dr. Melchior: A Defeated Enemy and My Early Beliefs. By John Maynard Keynes. New York: Augustus M. Kelley, 1949. Pp. 106. $1.75.

Production and Welfare of Agriculture. By Theodore N. Schultz. New York: Macmillan Co., 1949. Pp. xi, 99. $3.50.

The Whiskey Production Tax In Kentucky, 1933–1947. By Orba F. Traylor. Lexington: Bureau of Business Research, University of Kentucky, 1949. Pp. 53. Paper, 50¢.

Taxation of Thoroughbred Racing. By Rienzi Wilson Jennings. Lexington: Bureau of Business Research, University of Kentucky, 1949. Pp. viii, 126. Paper, $1.00.

The Idea of Progress: A Collection of Readings. Selected by Frederick J. Teggart. Revised, with an Introduction by George H. Hildebrand. Berkeley: University of California Press, 1949. Pp. xi, 457. $6.00.

An Introduction to Business Principles and Practices. By John R. Craf. New York: Harper & Bros., 1949. Pp. xiv, 578. $4.50.

The Theory of Fluctuations in Contemporary Economic Thought. By Sidney D. Merlin. New York: Columbia University Press, 1949. Pp. 168. $2.75.

Income, Saving and the Theory of Consumer Behavior. By James S. Duesenberry. Cambridge: Harvard University Press, 1949. Pp. 128. $2.50.

Farm Records and Accounts. By J. Norman Efferson. New York: John Wiley & Sons, 1949. Pp. ix, 281. $3.25.

The Corporation in New Jersey, Business and Politics 1791–1875. By John W. Cadman, Jr. Cambridge: Harvard University Press, 1949. Pp. xvi, 462. $6.00.

Wartime Experiences of the National Labor Relations Board, 1941–1945. By Fred Witney. Urbana: University of Illinois Press, 1949. Pp. 309. Paper, $2.50. Cloth, $3.50.

Government and Business. By Ford P. Hall. 3rd ed. New York: McGraw-Hill Book Co., 1949. Pp. xi, 594. $5.00.

Problems in Personnel Administration. By Richard P. Calhoon. New York: Harper & Bros., 1949. Pp. xii, 540.

Some Economic Aspects of the St. Lawrence Project. By Sister Jane Mary Howard. Washington: Catholic University of America Press, 1949. Pp. x, 172. Paper, $2.00.

Studies in Disability Insurance. New York: Division of Research and Statistics, New York State Department of Labor, 1949. Pp. x, 157. $1.00.

Financial and Operating Characteristics of the Municipal and Cooperative Distributors of T. V. A. Power. By Edward J. Neuner, Jr. Knoxville: Division of University Extension, University of Tennessee, 1949. Pp. vii, 115.

Agrarian Reform and Moral Responsibility. Edited by Marshall Harris and Joseph Ackerman. New York: Agricultural Missions, 1949. Pp. v, 130. Paper, $1.00.

David Ricardo and Ricardian Theory: A Bibliographical Checklist. By Burt Franklin and G. Legman. New York: Burt Franklin, 1949. Pp. vi, 88. $6.50.

Congress Makes a Law: The Story behind the Employment Act of 1946. By Stephen Kemp Bailey. New York: Columbia University Press, 1950. Pp. xii, 282. $3.75.

Valuation of Property: Economic and Legal Standards. By James W. Martin and Milford Estill. Lexington: Bureau of Business Research, University of Kentucky, 1949. Pp. 24.

Audit Working Papers. By Maurice E. Peloubet. New York: McGraw-Hill Book Co., 1949. Pp. xvi, 508. $8.50.

Has Market Capitalism Collapsed? A Critique of Karl Polanyi's New Economics. By Allen Morris Sievers. New York: Columbia University Press, 1949. Pp. 387. $4.75.

Corporate Finance: Principles and Practice. By Milo Kimball. Ames, Iowa: Littlefield, Adams & Co., 1949. Pp. ix, 305. Paper, $1.00.

How to Organize and Operate a Small Business. By Pearce C. Kelley and Kenneth Lawyer. New York: Prentice-Hall, 1949. Pp. xxii, 803. $5.00.

Readings in Marketing. By Malcolm P. McNair and Harry L. Hansen. New York: McGraw-Hill Book Co., 1949. Pp. xi, 769. $6.00.

Report of the Economic and Social Council, Covering the Period from 30 August 1948 to 15 August 1949. By United Nations. New York: Columbia University Press, 1949. Pp. viii, 122. $1.25.

Security for the People: Ways of Maintaining Full Employment and High Farm Income. By Roland W. Bartlett. Champaign, Ill.: Garrard Press, 1949. Pp. vii, 303. $3.75.

A Concise Economic History of Britain: From the Earliest Times to 1750. By Sir John Clapham. Cambridge: University Press, 1949. Pp. xv, 324. $2.75.

Industrial Relations Research Association Membership Directory. Champaign, Ill.: Industrial Relations Research Association, 1949. Pp. xii, 137.

Industrial Relations Research Association: Proceedings of First Annual Meeting. Champaign, Ill.: Industrial Relations Research Association, 1949. Pp. ix, 255.

Rating Employee Performance. By William V. George. University: Bureau of Business Research, University of Mississippi, 1949. Pp. 14.

History of Economic Thought. By Lewis H. Haney. 4th ed. New York: Macmillan Co., 1949. Pp. xxii, 996. $5.00.

Studies in Population: Proceedings of the Annual Meeting of the Population Association of America at Princeton, New Jersey May 1949. Edited by George F. Mair. Princeton: Princeton University Press, 1949. Pp. viii, 169. Paper, $2.50.

Passing of the Mill Village: Revolution in a Southern Institution. By Harriet L. Herring. Chapel Hill: University of North Carolina Press, 1949. Pp. vii, 137. $3.00.

International Commodity Stockpiling as an Economic Stabilizer. By M. K. Bennett and others. Stanford: Stanford University Press, 1949. Pp. viii, 205. $3.00.

Monetary Management: The Regulation of Credit. By E. Sherman Adams. New York: Ronald Press Co., 1950. Pp. vii, 127. $2.50.

Effective Selling. By George Edward Breen and others. New York: Harper & Bros., 1950. Pp. viii, 278. $3.00.

The Income of Society: An Introduction to Economics. By Elizabeth Ellis Hoyt. New York: Ronald Press Co., 1950. Pp. xii, 753. $4.50.

Scholarships, Fellowships and Loans. By S. Norman Feingold. Boston: Bellman Publishing Co., 1949. Pp. 254. $6.00.

Marketing Research Practice. Edited by Donald M. Hobart. New York: Ronald Press Co., 1950. Pp. ix, 471. $5.00.

Advertising: Text and Cases. By Neil H. Borden. Chicago: Richard D. Irwin, 1950. Pp. xiii, 1050. $6.00.

Theory in Marketing: Selected Essays. Edited by Reavis Cox and Wroe Alderson. Chicago: Richard D. Irwin, 1950. Pp. x, 340. $4.50.

Economics and the Public Welfare: Financial and Economic History of the United States, 1914–1946. By Benjamin M. Anderson. New York: D. Van Nostrand Co., 1949. Pp. xiv, 602. $6.00.

Engineering Economic Analysis. By Clarence E. Bullinger. 2nd ed. New York: McGraw-Hill Book Co., 1950. Pp. xiii, 397. $4.00.

Virginia and the Civil Rights Program: A Symposium of Papers delivered at the Annual Meeting of the Virginia Social Science Association held at the University of Virginia on April 30, 1949. Charlottesville: Bureau of Population and Economic Research, University of Virginia, 1949. Pp. 54. Paper, $1.00.

Investments. By George W. Dowrie and Douglas R. Fuller. 2nd ed. New York: John Wiley & Sons, 1950. Pp. viii, 611. $5.00.

Taxable and Business Income. By Dan Throop Smith and J. Keith Butters. New York: National Bureau of Economic Research, 1949. Pp. xxv, 342. $4.00.

Economics of Labor and Industrial Relations. By Gordon F. Bloom and Herbert R. Northrup. Philadelphia: Blakiston Co., 1950. Pp. x, 749. $5.00.

Patent Tactics and Law. By Roger Sherman Hoar. 3rd ed. New York: Ronald Press Co., 1950. Pp. xv, 352. $7.00.

The Structure of American Industry: Some Case Studies. Edited by Walter Adams. New York: Macmillan Co., 1950. Pp. x, 588. $4.75.

The Philosophy of Thorstein Veblen. By Stanley Matthew Daugert. New York: King's Crown Press, 1950. Pp. viii, 134. $2.25.

Psychology of Labor-Management Relations. Edited by Arthur Kornhauser. Champaign, Ill.: Industrial Relations Research Association, 1949. Pp. vi, 122. $1.50.

Elementary Economics. By Leland J. Gordon. New York: American Book Co., 1950. Pp. xxx, 576. $4.50.

Economics of Business Enterprise: A Study of the Firm in the Aggregate Economy. By George J. Cady. New York: Ronald Press Co., 1950. Pp. x, 452. $4.50.

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Applications for membership should be addressed to J. B. McFerrin, University of Florida, Gainesville, Florida.